

OWEN SOUND TRANSPORTATION COMPANY

2013

ANNUAL
REPORT



SERVICE AREAS

MANITOULIN ISLAND

SOUTH BAYMOUTH

FITZWILLIAM ISLAND

FATHOM FIVE NATIONAL MARINE PARK

TOBERMORY

BRUCE PENINSULA NATIONAL PARK

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.



OWEN SOUND TRANSPORTATION COMPANY ANNUAL REPORT

2013/14

CONTENTS

Service Areas	2
Mandate	2
Message from the Chair	4
Message from the President/CEO	6
About OSTC	7
Corporate Governance	8
Operational Overview – Key Performance Indicators	9
Operational Overview – Key Accomplishments	11
Management’s Discussion	14
Financial Statements – Management’s Responsibility	18
Financial Statements – Independent Auditor’s Report	19

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.

Contact:

The Owen Sound Transportation Company Limited
717875 Hwy #6, Owen Sound, ON N4K 5N7

Tel: 519-376-8740 • Fax: 519-376-6384 • Twitter @ontarioferries
www.ontarioferries.com ISSN 1925-2366





Barney Hopkins,
Chairman of the OSTC
Board of Directors

“Many recommendations were insightful and were acted on in 2013-14. Based on this Study and management insight and leadership, steps that OSTC has taken a number of steps to maximize ferry revenue.”

On behalf of the Board of Directors of the Owen Sound Transportation Company, I would like to thank all our senior management, employees and volunteers for making 2013 another successful sailing season. The outstanding service they provided to thousands of customers is evidenced by the 98.85% positive response we received from our 2013 passenger survey. Their achievement is all the more remarkable given the challenges OSTC faced in 2013 particularly with respect to low water levels and sustained economic doldrums.

Faced with these formidable challenges, the Board authorized a comprehensive Ferry Market Feasibility Study which was received in 2012/13. Many of the recommendations were insightful and were acted on in 2013-14. Based on this Study and management insight and leadership, steps that OSTC has taken to maximize ferry revenues include:

1. Implementation of Peak/Off Peak vehicle fare structure;
2. Introduction of new customer loyalty program for frequent passengers; and
3. The development and offering of innovative, enhanced on-board customer experiences through such initiatives as exclusive dinner cruises, interpretative programming and on-ship retail partnerships with local and Indigenous merchants and artisans.

The OSTC Board oversaw and participated with senior management in the development of a rolling three-year business plan. This important exercise is in conformity with the requirements specified by a 2010 Management Board of Canada Directive, all other provincial Directives to which OSTC is accountable and a Memorandum of Understanding between OSTC and the Ministry of Northern Development and Mines.

This planning is essential for the Board to have continuing confidence that we are doing

everything possible to meet the OSTC’s strategic goals which are to:

1. Provide safe, secure, regulatory compliant, accessible and environmentally responsible marine transportation services;
2. Improve the company’s financial performance through increasing revenue and reducing expenses wherever possible; and
3. Build and maintain strong, mutually beneficial relationships with the communities and regions that we serve.

My fellow Board members and I believe that our rigorous planning served us well in being prepared to meet the sometimes daunting challenges of 2013/14 and we look forward to the upside that our current planning will yield as the economy recovers and our strategic marketing, investment, risk management and other decisions take effect. ■

BARNEY HOPKINS
Chairman of the OSTC
Board of Directors



M.S. Chi-Cheemaun's dining lounge

It is the fundamental mandate and therefore responsibility of OSTC to provide safe, efficient and reliable ferry transportation in the Province of Ontario. Keeping this commitment with respect to seasonal ferry services to Manitoulin Island was put to test in spring 2013 by pronounced, prolonged low water levels.

On May 3, 2013 which was the scheduled start of OSTC service in Tobermory and South Baymouth, low water levels made it unsafe for passengers or vehicles to access the Chi-Cheemaun from

This two week delay caused customer uncertainty which contributed to a shortfall in passenger and vehicle numbers from May through the peak season months of June, July and August. Even a slight spike in fall traffic was insufficient to rebound from the earlier decline.

But as disappointing as these travel numbers were, customer satisfaction was high (98.85%) and decisive actions taken in 2013-2014 point to more encouraging results in years to come. OSTC is optimistic that a corner has been turned.

“OSTC is optimistic that a corner has been turned. Innovations and investments based on the findings of the Ferry Market Feasibility Study have been made which we expect will lead to a growing number of passengers who will be attracted by and then pleased with an enhanced travel experience.”

Transport Canada’s wharves at those locations. Only on May 17, 2013 when water levels had risen sufficiently did service commence, with load restrictions. Concurrently OSTC made arrangements to have wharf fenders renovated so as to mitigate the consequences of future such low water challenges. The cost of this renovation, which was about \$390,791, was paid by OSTC, supported financially by Ontario Ministry of Northern Development and Mines.

Innovations and investments based on the findings of the Ferry Market Feasibility Study have been made which we expect will lead to a growing number of passengers who will be attracted by and then pleased with an enhanced travel experience. The Chair’s message contained in this Annual Report highlighted some of the many initiatives OSTC has taken, including a new customer loyalty program and more on-board and shore-side entertainment. With an advertising program

that highlights these initiatives targeted at the GTA area and additional funds allocated to marketing, OSTC expects that our focused campaign will build a heightened long term awareness of the Chi-Cheemaun adventure. This in turn will contribute to greater profitability.

Another significant development in 2013 was a contractual arrangement with the Ontario Northland Transportation Commission (ONTC) on November 26, 2013 whereby OSTC acquired ownership of the MV Niska I which provides ferry service between Moosonee and Moose Factory Island, Ontario. Up to March 31, 2014 OSTC continued to provide this service on the Niska I on a contract basis for ONTC. The new arrangement took effect on an operational level on April 1, 2014. The boat is essentially brand new (2011) and will require minimal investment in the near future to continue operations. It is a welcome addition to our fleet.

I am pleased to report that no safety or non-compliance incidents occurred during 2013/14. As well, there were no service interruptions resulting from mechanical breakdown during the 2013 operating seasons. ■

SUSAN SCHREMPF
President & CEO



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 in 2013/14 OSTC’s workforce consisted of 29 full-time and seasonal management employees and 170 unionized seasonal employees for the Manitoulin Island and Pelee Island Ferry Services. Unionized employees are members of the Seafarers’ International Union of Canada under Collective Agreements expiring December 31, 2013.

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. ■

The Owen Sound Transportation Company Limited (OSTC) was established under the Ontario Business Corporations Act of the Province of Ontario on March 10, 1921 and operated in the private sector in receipt of both Federal and Provincial subsidies. From 1973 until March 31, 2002, 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 head office in Owen Sound, Ontario.

OSTC is an integral part of Ontario’s tourism and transportation system. During 2013/14, OSTC was responsible for the operation of four ships and six terminal facilities and two landings on four ferry routes.

OSTC owns and operates the M.S. Chi-Cheemaun ferry, which provides seasonal service, from May through October each year, to a largely tourism based ridership between Manitoulin Island and the Bruce Peninsula on Lake Huron. In 2013/14, the Chi-Cheemaun carried 166,224 passengers and 66,385 vehicles between Tobermory and South Baymouth.

Also in 2013/14 OSTC operated on behalf of Ontario Northland Transportation Commission (ONTC) the M.V. Niska I, a landing craft ferry, which provides vehicle, freight and passenger transportation services between Moosonee and Moose Factory Island on the Moose River at the mouth of James Bay. On November 25, 2013 OSTC acquired ownership of the Niska I in an ownership transfer arrangement.

As well, OSTC is contracted by the Ontario Ministry of Transportation to manage

SHIP	SIZE	CAPACITY	ROUTE	SEASON	CROSSING TIME(MIN)
Chi-Cheemaun	106m	638 psgr/140 veh	Tobermory - South Baymouth	May - Oct	120
Niska I	27m	47 psgr/6 veh	Moosonee - Moose Factory Island	June - Oct	20
Jimaan	61m	385 psgr/35 veh	Kingsville/Leamington - Pelee Island	May - Nov	90
Pelee Islander	42m	196 psgr/10 veh	Kingsville/Leamington - Pelee Island	Apr - Dec	90
Pelee Islander	42m	196 psgr/10 veh	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 OSTC's Ministerial appointees Board of Directors, who are responsible for the administration of the business of the OSTC.

The Board of Directors has a 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.

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 for the leadership and management of the Corporation. ■

BOARD OF DIRECTORS

Barney Hopkins
Chair, Tobermory
(01 April 2002 - 31 March 2014)

John Greenway
Vice Chair - South Baymouth
(01 April 2007 - 31 March 2014)

Martin Garfield Brown
South Baymouth
(01 July 2005 - 30 June 2014)

Hugh Moggy
Manitowaning
(01 June 2007 - 31 May 2014)

Bill Caulfeild-Browne
Tobermory
(15 June 2012 - 14 June 2015)

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

K. Rutherford
Vice President of Finance
(until January 31, 2014)



KEY INDICATORS	2013/14	2012/13	2011/12
CHI-CHEEMAUN			
Income per passenger (ticket and on-board sales)	\$ 39.20	\$ 38.28	\$ 37.54
Expense per passenger (operating only)	\$ 52.11	\$ 47.55	\$ 45.80
Percentage of operating expenses recovered from income	75.22%	80.50%	81.96%
Retail Service Revenue per passenger	\$ 6.40	\$ 5.65	\$ 5.33
Advertising expense per passenger	\$ 1.16	\$ 0.90	\$ 0.92
Fuel expense per one-way crossing (avg from total fuel cost)	\$ 1,422.21	\$ 1,270.29	\$ 1,541.50
Passengers carried	166,224	178,339	180,768
Utilization - passengers	27.37%	28.64%	29.09%
Vehicles carried	66,385	70,951	71,039
Utilization - vehicles	54.68%	57.24%	57.51%
Annual total # of departures	952	976	974
Average # of vehicles per departure	70	73	73
Average # of passengers per vehicle per departure	2.50	2.51	2.54

FINANCIAL HIGHLIGHTS	2013/14	2012/13
OPERATIONS:		
Commercial Revenues	\$ 6,670,967	\$ 6,825,939
Operating Contract Revenues	\$ 462,926	\$ 575,200
Market Study Grants	\$ -	\$ 109,186
Total Revenue	\$ 7,133,893	\$ 7,510,325
(1) Operating Expenses	\$ 9,004,961	\$ 8,703,222
Marketing	\$ -	\$ 111,964
Amortization	\$ 716,760	\$ 698,022
Total Expense	\$ 9,721,721	\$ 9,513,208
Loss before Provincial Funding	\$ (2,553,551)	\$ (1,778,955)
Provincial Funding - operating	\$ 2,545,703	\$ 1,376,110
Provincial Funding - capital projects expensed in operating (1)	\$ -	\$ 6,375
(2) Net earnings (loss)	\$ (7,848)	\$ (396,470)
ASSETS:		
Financial Assets	\$ 1,851,154	\$ 2,280,378
Non-financial Asset	\$ 34,593	\$ 19,340
Investment in Capital Assets	\$ 17,291,502	\$ 13,370,976
Total Assets	\$ 19,177,259	\$ 15,670,694

NOTES TO KEY INDICATORS:

(1) Total expenses per audited financial statements	\$ 9,773,671	\$ 9,388,316
Less: Amortization (reported separately above)	\$ (716,760)	\$ (698,022)
Marketing Costs (reported separately above)	\$ -	\$ 111,964
Change in WSIB	\$ (33,080)	\$ (57,901)
Change in Employee Future Benefits	\$ (18,870)	\$ (41,135)
Total Operating Expenses per Above	\$ 9,004,961	\$ 8,703,222
(2) Annual surplus (deficit) per audited financial statements	\$ 4,070,617	\$ 731,550
Less: Capital funding from MNDM (capital expenses directly financed and not included in operating expenses - therefore, capital funds do not cover operating losses)	\$ (452,852)	\$ (1,227,056)
Remove change in WSIB Obligation	\$ (33,080)	\$ (57,901)
Remove change in Employee Future Benefits	\$ (18,870)	\$ (41,135)
Adjusted Net Loss	\$ 3,565,815	\$ (594,542)

FERRY TRAFFIC: The decline in passenger and vehicle traffic on the M.S. Chi-Cheemaun which began in 2008 continued unabated in the 2013 operating season. The Chi-Cheemaun carried 166,224 passengers and 66,385 vehicles in 2013, decreases of 6.79% and 6.4% respectively relative to 2012. Much of this deterioration is attributable to the continuing adverse mix of a punishing economic recession,

MARKETING: Recommendations from the 2012/13 Ferry Market Feasibility Study began to be introduced into our Chi-Cheemaun operation during the 2013 season with promising results. These include a new customer loyalty program and more on-board and shore side entertainment. OSTC has refined and increased its focus considerably on

providing travel transactions to also offering and delivering appealing tourism experiences, as a product in their own right. Initiatives of this kind included the introduction of dockside and onboard programming. For example, the new Stargazer's Delight Tour program was offered six days a week during the month of August. Both the Stargazer's Delight Tour and the dockside live musical entertainment created a lot of buzz and were well received both by residents of the surrounding communities and by visitors to the area, many of whom were attracted by our marketing initiatives. Customers were also pleased with the removal of the reservation fee, the new Peak/Off Peak vehicle fare structure and the introduction of customer loyalty cards. Further during the season, OSTC developed a working partnership with the Georgian Bay Folk Society whereby they provide professional guidance and assistance to OSTC in the development of on-board and shore side musical entertainment.

MS CHI-CHEEMAUN VEHICLE AND PASSENGER TRAFFIC 2011 - 2013

	May	June	July	Aug	Sept	Oct	Total	% change/ prior year
VEHICLES								
2013	3,378	9,432	17,907	20,628	9,933	5,107	66,385	-6.44%
2012	6,360	9,627	19,424	21,218	10,673	3,649	70,951	-0.12%
2011	5,401	8,825	20,798	20,280	11,395	4,340	71,039	-4.61%
PASSENGERS								
2013	7,479	21,272	47,228	57,606	21,315	11,324	166,224	-6.79%
2012	13,373	22,208	51,615	58,927	23,930	8,286	178,339	-1.34%
2011	10,572	20,300	57,500	56,637	26,135	9,624	180,768	-4.05%

high gas prices, a low valuation of the US dollar and improved highway alternatives. But a two week delay in the commencement of operations as the direct result of record low water levels added to the burden, as did persistent depressed traffic levels through June, July and August which may in part be associated with customer uncertainty and delay in booking travel because of the rocky start to the season. Only in September and October did ferry traffic rebound to levels consistent with those of fall 2012 which themselves were historically low.

building traveler awareness and enhancing their customer experience. With an advertising program that highlights these and other initiatives targeted at the GTA area and additional funds allocated to marketing, OSTC expects that our focused campaign will heighten short and longer term awareness of the Chi-Cheemaun adventure. This in turn will contribute to greater profitability.

BUSINESS DEVELOPMENT: Over the 2013 season, OSTC began the positive transition from simply

MAJOR CAPITAL: OSTC received \$452,852 in capital funding for \$534,686 worth of projects on the Chi-Cheemaun, OSTC properties in Tobermory and South Baymouth and the Niska I in Moosonee. Chi-Cheemaun projects included the completion of the replacement Marine Evacuation System had begun in the winter of 2012/13 which was carried over into Q1 2013/14, replacement of a reach-in cooler in the galley, fire door replacement and major

replacement spares for the vessel Bow Thruster.

Tobermory and South Baymouth ferry terminals received significant renovation, the first since their construction in 1972. The Ticket Sales and Customer Service area of the South Baymouth office building was enlarged and modified to become compliant with the Accessibility for Ontarians with Disabilities Act (AODA) and to provide a more efficient workspace. Public washrooms in both terminal buildings were gutted to the walls and all surfaces and fixtures were replaced, also in accordance with AODA standards. Windows in both terminals were replaced, as required. Terminal vehicle loading and parking lot surfaces

were sealed and lines repainted. Parking lot reconfiguration engineering was completed for the South Baymouth commuter parking lot.

Niska I received \$32,852 of the total capital funding for engineering work pursuant to the winter haul-out and maintenance facility required for Niska I which will be constructed. In 2013/14, an extra cooling system strainer for the vessel and exterior seating and weather shelter for Niska I passengers.

MACHINERY: There were no service interruptions or lost trips resulting from mechanical breakdowns during the 2013 operating season.



OSTC developed a working partnership with the Georgian Bay Folk Society whereby they provide professional guidance and assistance to OSTC in the development of on-board and shore side musical entertainment.

SAFETY & ENVIRONMENT:

OSTC has maintained voluntary International Safety Management (ISM) Code compliance since receiving certification by Lloyd's Classification Society in 1997. The Safety Management System provides policies and procedures for all aspects of the operation with the purpose of reducing safety and environmental

Health and Safety Act and Regulations, specifically the Industrial Regulations (MOSH) 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 assign responsibility for enforcement and inspection of Occupational Safety and Health on ships owned by the Province.

OSTC maintains compliance with both the Provincial Regulations and MOSH as the MOSH regulations are often more stringent and more applicable to the marine working environment.

There were no changes to the Occupational Health and Safety Regulations during the 2013/2014 period that affected OSTC. We maintained normally scheduled OSH training and inspections for employees and facilities. Employee accident rates are very low and well within industry standards. Only one employee injury resulting in Lost Time occurred. OSTC's health and safety strategies remain on target.

incidents arising from human error. 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.

The ISM audit compliance rate was 100% throughout all of 2013/14. No Safety or Environmental non-compliance incidents occurred.

OCCUPATIONAL SAFETY AND HEALTH: OSTC is accountable to the Ontario Ministry of Labour Occupational

CUSTOMER SATISFACTION: The annual customer survey for 2013/14 revealed that the customer satisfaction level was excellent at 98.85%.

MOOSONEE/MOOSE FACTORY ISLAND FERRY: OSTC's contract with Ontario Northland Transportation Commission to manage ONTC's Moose River ferry service operating between Moosonee and Moose Factory Island route across the Moose River in Northern Ontario was renewed for the last time and was in effect for the full 2013 season. As the key element of this arrangement, OSTC continued to oversee the operations of the M.V. Niska I in 2013.

The transfer of the operation of this service and the ownership of Niska I from ONTC to OSTC was finalized on November 26, 2013. The agreement includes continued engagement of local services provided through the Moose Band Development Corporation. ■

98.85%

The annual customer survey for 2013/14 revealed that the customer satisfaction level was excellent at 98.85%





CHI-CHEEMAUN REVENUES:

Both vehicle and passenger traffic on the MS Chi-Cheemaun and corresponding revenue from this traffic and on-board spending over the 2013 sailing season was less than budgeted and less than the previous year. The Chi-Cheemaun carried 166,224 passengers and 66,385 vehicles in 2013, decreases of 6.8% and 6.4% respectively relative to 2012. In sum, Cheemaun ferry operations generated \$6,277,751 in revenues over the 2013 sailing season which was 4.5% lower than budget revenue (the equivalent of \$305,868) as the result of a two week delay to the start of the spring sailing season and persistent depressed traffic levels through June, July and August. Only in September and

October did ferry traffic rebound to levels consistent with those of fall 2012 which themselves were historically low.

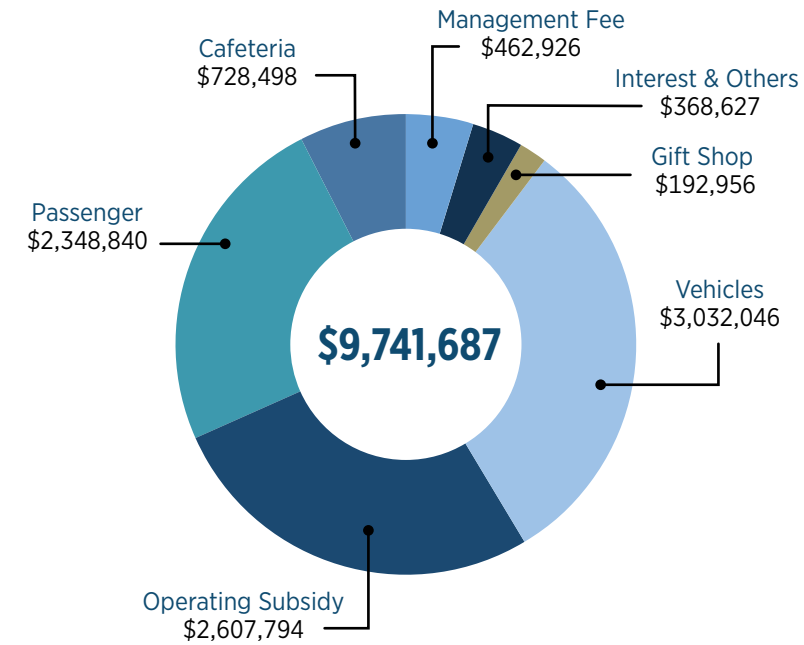
It is evident from these statistics that ferry traffic is still declining and has not yet begun to rebound from the punishing 2008/09 economic recession. Following the recession, long term changes to spending habits, alternative means of getting to the destinations served by OSTC (Highways 400 and 69) and issues specific to US customer (border and dollar value) continue to have a persistent depressing influence on any rebound to pre-2008 ferry traffic levels.

Exacerbating the problem were historically low water levels in

Georgian Bay. On May 3, 2013, the planned starting day for the Chi-Cheemaun's ferry season, water levels were too low by about 25 cm to permit safe passenger access and egress. At that date, the ferry was not high enough in the water for the fenders to protect the ship from hitting the dock. It took two full weeks for the water level to rise sufficiently to allow the season to begin.

The Ministry of Northern Development and Mines offset part of the losses from ferry revenue by providing an additional \$293,942 in operating subsidy. As well, wherever practicable, OSTC implemented cost saving measures in all areas that would not affect safe vessel operations to further offset

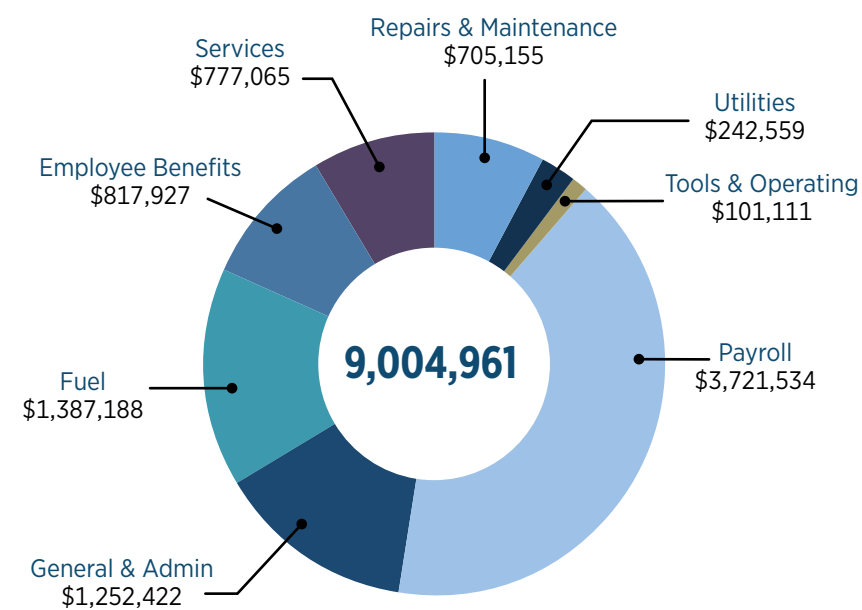
2013/14 Operating Revenue



lower than expected 2013/14 income, including implementing vessel crew reductions relative to reduced passenger carriage in the summer sailing season, and postponing non-essential projects planned for 2013/14.

The wharfs at South Baymouth and Tobermory that are used by OSTC in the operation of its ferry services are owned by Transport Canada. In a licence agreement dated May 9, 2013 Transport Canada gave OSTC and MNDM temporary access to these two wharf structures to complete the required remedial fender relocation work necessary to mitigate some of the damaging effects of low water levels. Subsequently in 2013/14 OSTC received funds of \$390,761 from MNDM to reimburse the costs associated with this work.

2013/14 Operating Expenses



In direct response to these challenges, beginning in late 2012 and carried over into 2013 OSTC took the following steps to increase potential customer awareness and improve booking and ship amenities.

Experience and increase passenger counts and vehicle travel as recommended in the major Ferry Market Feasibility Study:

- Introduced Peak/Off-Peak fares instead of reservation fees,
- Introduced a new "Cruise Experience" fare,
- Introduced a limited bulk discount program,
- Hired an employee with responsibilities focused on

- customer and media relations,
- Allocated additional funds for marketing expenses, and
- Began working on the overhaul of the OSTC web site www.ontarioferries.com

It is hoped/expected that these and other complementary initiatives will begin to contribute to an upward trend in passenger and vehicle carriage and associated revenues beginning in 2014.

Note: The OSTC audited Statement of Operations and Accumulated Surplus for the year ended March 31, 2014 includes a revenue item of \$4,102,601 as a contributed asset. This represents the transfer of ownership to OSTC from MNDM of the Niska I Ferry and the Manitou Island II per a transfer agreement executed on December 4, 2013. No actual cash was transferred. This one-time revenue item is not operating revenue and, as such has, not been included in the Financial Overview analysis in this Annual Report.

CHI-CHEEMAUN EXPENSES: Total actual operating expenses for 2013/14 (excluding amortization) were \$9,004,961. These were 2.6% higher than budget and result of higher than budgeted fuel costs offset by lower than budgeted salaries and wages and deferred non-essential maintenance projects.

NISKA I REVENUES AND EXPENSES: Summer 2013 was the last sailing season that OSTC operated on a contractual basis

on behalf of ONTC the M.V. Niska I, a landing craft ferry, which provides vehicle, freight and passenger transportation services between Moosonee and Moose Factory Island on the Moose River at the mouth of James Bay. On November 25, 2013 OSTC acquired ownership of the Niska I in an ownership transfer arrangement and beginning in 2014/15 this will be operated by OSTC as a regular in-house ferry service, just like the Chi-Cheemaun.

In 2013/14 Niska I generated \$154,927 in operating revenue, and received a MNDM subsidy of \$261,000. Operating expenses were \$394,415, leaving a minor surplus of \$21,512.

CHANGE IN ACCOUNTING POLICY: On April 1, 2013, OSTC adopted *Public Standards PS 1201 - Financial Statement Presentation, PS 2601 - Foreign*

Currency Translation and PS 3450 - Financial Instruments. The new standards provide comprehensive requirements for the recognition, presentation and disclosure of financial instruments and foreign currency transactions.

Effective April 1, 2013, OSTC also adopted on a prospective basis the new accounting standards *PS3410 Government Transfers* from the Chartered Professional Accountants of Canada handbook. The adoption of these policies has no effect on the previously reported balances of OSTC. ■



FINANCIAL STATEMENTS

For the year ended March 31, 2014

CONTENTS

Management's Responsibility	18
Independent Auditor's Report	19

FINANCIAL STATEMENTS

Statement of Financial Position	20
Statement of Operations and Accumulated Surplus	21
Statement of Changes in Net Financial Assets	22
Statement of Cash Flows	23
Notes to Financial Statements	24

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 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
August 20, 2014



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, 2014 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, 2014 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
August 20, 2014

BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED
STATEMENT OF FINANCIAL POSITION

MARCH 31	2014	2013
Financial Assets		
Cash and cash equivalents (Note 4)	\$ 1,360,643	\$ 41,195
Accounts receivable (Note 5)	449,076	2,197,848
Inventory held for resale	41,445	41,335
	1,851,164	2,280,378
Liabilities		
Bank indebtedness (Note 6)	-	55,196
Accounts payable and accrued liabilities	398,521	959,327
Employee future benefit obligations (Note 8)	901,823	882,953
Workers' compensation obligations (Note 9)	176,034	142,954
	1,476,378	2,040,430
Net financial assets	374,786	239,948
Contingencies (Note 13)		
Non-financial assets		
Inventory for own use	32,510	19,340
Prepaid expenses	2,083	-
Tangible capital assets (Note 10)	17,291,502	13,370,976
	17,326,095	13,390,316
Accumulated surplus (Note 11)	\$ 17,700,881	\$ 13,630,264

Approved on Behalf of the Company:

 Chair

 President & CEO

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

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED
STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

FOR THE YEAR ENDED MARCH 31	2014	2014	2013
	Budget (Note 12)	Actual	Actual (Restated Note 18)
Revenues			
Vehicles	2,842,500	3,032,046	2,827,578
Ministry of Northern Development and Mines subsidy (Note 16(a))	\$ 4,955,000	\$ 2,607,794	\$ 2,609,541
Passenger revenue	2,473,750	2,348,840	2,468,956
Cafeteria	760,450	728,498	780,311
Pelee Island ferry service management fee (Note 16 (b))	698,000	462,926	495,200
Interest and other	675,500	368,627	521,133
Tuck and terminal gift shop revenue	193,100	192,956	227,961
Market feasibility study	-	-	109,186
M.V. Manitou Island II ferry service management fee	-	-	80,000
Contributed capital asset	-	4,102,601	-
	12,598,300	13,844,288	10,119,866
Expenses			
Salaries and wages	3,908,000	3,721,534	3,733,776
General and administrative expenses	1,275,250	1,252,422	1,279,588
Fuel	1,437,000	1,387,188	1,247,996
Employee benefits	1,037,950	869,877	872,938
Amortization	-	716,760	698,022
Services	819,760	777,065	628,004
Repairs and maintenance	703,700	705,155	559,857
Utilities	209,000	242,559	254,473
Tools and operating supplies	133,640	101,111	113,662
	9,524,300	9,773,671	9,388,316
Annual surplus (Note 12)	3,074,000	4,070,617	731,550
Accumulated surplus, beginning of the year	13,630,264	13,630,264	12,898,714
Accumulated surplus, end of the year	\$ 16,704,264	\$ 17,700,881	\$ 13,630,264

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

STATEMENT OF CHANGES IN NET FINANCIAL ASSETS

FOR THE YEAR ENDED MARCH 31	2014	2014	2013
	Budget (Note 12)	Actual	Actual (Restated Note 18)
Annual surplus (Page 21)	\$ 3,074,000	\$ 4,070,617	\$ 731,550
Acquisition of tangible capital assets	(3,095,000)	(4,637,286)	(1,262,948)
Amortization of tangible capital assets	-	716,760	698,022
Loss on the disposal of capital assets	-	-	2,924
	(3,095,000)	(3,920,526)	(562,002)
Change in inventories for own use	-	(13,170)	80,684
Change in prepaid expense		(2,083)	-
Increase (decrease) in net financial assets	(21,000)	134,838	250,232
Net financial assets (debt), beginning of year	239,948	239,948	(10,284)
Net financial assets, end of the year	\$ 218,948	\$ 374,786	\$ 239,948

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31	2014	2013
		(Restated Note 18)
Cash provided by (used in)		
Operating activities		
Annual surplus	\$ 4,070,617	\$ 731,550
Items not affecting cash		
Amortization	716,760	698,022
Loss on disposal of capital assets	-	2,924
Contributed capital asset	(4,102,601)	-
Change in workers' safety insurance obligations (Note 9)	33,080	57,901
Change in employee future benefit obligations (Note 9)	18,870	41,135
	736,726	1,531,532
Changes in non-cash working capital balances		
Accounts receivable	1,748,772	(1,220,100)
Inventory held for resale	(110)	7,191
Prepaid expenses	(2,083)	-
Accounts payable and accrued liabilities	(560,806)	649,651
Inventory for own use	(13,170)	80,684
	1,909,329	1,048,958
Investing activities		
Purchase of capital assets	(534,685)	(1,262,948)
Financing activities		
Increase (decrease) in bank indebtedness	(55,196)	55,196
Change in cash and cash equivalents during the year	1,319,448	(158,794)
Cash and cash equivalents, beginning of the year	41,195	199,989
Cash and cash equivalents, end of the year	\$ 1,360,643	\$ 41,195

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

MARCH 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business	<p>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.</p> <p>OSTC’s one issued and outstanding common share is held by the Ministry of Northern Development and Mines (MNDM).</p>
Basis of Accounting	<p>The financial statements of OSTC are the representations of management. They 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.</p> <p>Revenues and expenses are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available and measurable; expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.</p>
Foreign Currency Translation	<p>Foreign currency accounts are translated into Canadian dollars as follows:</p> <p>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.</p>
Post-Employment Benefits	<p>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.</p> <p>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.</p>

MARCH 31, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

	<p>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.</p> <p>Employees hired after April 1, 2002 are not eligible to join the ONTC pension plan. OSTC has been negotiating to have these employees eligible to join retroactive to April 1, 2002. The benefit cost recorded on the financial statements is based on the actuarial estimate of the liability and are recorded in the period in which the employees render service to OSTC.</p>
Workplace Safety & Insurance Board	<p>OSTC is a Schedule 2 employer with respect to workers’ compensation benefits. As such OSTC recognizes its obligation for these future benefits on an accrual basis. The estimated future benefits are determined using actuarial calculations.</p>
Revenue Recognition	<p>Vehicle and passenger revenues are generally recognized on the date tickets are sold.</p> <p>Cafeteria, tuck and terminal gift shop and other revenue is recorded upon sale of goods or provision of service when collection is reasonably assured.</p> <p>Interest is recognized in the period earned.</p> <p>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.</p>
Cash and Cash Equivalents	<p>Cash and cash equivalents include cash on hand and balances with banks.</p>
Bank Indebtedness	<p>Bank indebtedness includes short-term overdrafts.</p>
Inventory	<p>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.</p> <p>Inventory for own use is recorded at the lower of cost and replacement cost.</p>

MARCH 31, 2014

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 charges 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

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.

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 category 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, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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' compensation 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.

2. CHANGE IN ACCOUNTING POLICY

On April 1, 2013, OSTC adopted Public Standards (*PS 1201 - Financial Statement Presentation, PS 2601 - Foreign Currency Translation and PS 3450 - Financial Instruments*). The standards were adopted prospectively from the date of adoption. The new standards provide comprehensive requirements for the recognition, measurement, presentation and disclosure of financial instruments and foreign currency transactions.

Under PS 3450, all financial instruments, are included on the statement of financial position and are measured either at fair value or amortized cost based on the characteristics of the instruments and OSTC's accounting policy choices. Cash is the only financial instrument measured at fair value.

Effective April 1, 2013, OSTC also adopted on a prospective basis the new accounting standards PS3410 Government Transfers from the Chartered Professional Accountants of Canada Handbook.

Government transfers are recognized when authorized and eligibility criteria have been met unless the transfer contains stipulations that create a liability. If the transfer contains stipulations that create a liability, the related revenue is recognized over the period that the liability is extinguished.

The adoption of these policies had no effect on the previously reported balances of OSTC.

MARCH 31, 2014

3. FINANCIAL INSTRUMENT CLASSIFICATION

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

	Fair Value	2014	
		Cost	Total
Cash and cash equivalents	\$ 1,360,643	\$ -	\$ 1,360,643
Accounts receivable	-	449,076	\$ 449,076
Accounts payable and accrued liabilities	-	398,521	\$ 398,521

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

4. CASH AND CASH EQUIVALENTS

	2014	2013
Cash on hand	\$ 17,150	\$ 16,361
Bank	1,342,119	13,794
In transit	1,374	11,040
	\$ 1,360,643	\$ 41,195

On March 31, 2014, the company had deposits of \$1,674,278 in a Canadian Chartered bank. The Canadian Deposit Insurance Corporation insures deposits up to a maximum of \$100,000 (2013 - \$100,000) per depositor and per financial institution.

5. ACCOUNTS RECEIVABLE

	2014	2013
Ministry of Northern Development and Mines	\$ 74,964	\$ 542,296
Ministry of Transportation	265,010	1,305,114
Other	109,102	350,438
	\$ 449,076	\$ 2,197,848

There are no impairment allowances relating to accounts receivable.

6. OPERATING LOAN - CREDIT FACILITY

	2014	2013
Bank indebtedness	\$ -	\$ 55,196

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, 2014 the company had undrawn credit capacity under this facility of \$2,000,000.

MARCH 31, 2014

7. PENSION AGREEMENTS

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 10 members of its staff. This plan is a defined benefit plan which specifies the amount of the retirement 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 2014 by the Owen Sound Transportation Company Limited was \$44,064 (2013 - \$45,356). Members contribute 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 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, 2011. At that time the plan reported a \$18.3 million actuarial deficit (2010 - \$38.6 million actuarial deficit), based on actuarial liabilities of \$464.8 million (2010 - \$461.5 million) and actuarial assets of \$446.5 million (2010 - \$422.9 million). Ongoing adequacy of the current contribution rates will need to be monitored as the financial markets may lead to increased future funding requirements.

8. RETIREMENT AND POST-EMPLOYMENT BENEFITS

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

	2014	2013
Current period benefit cost	\$ 1,063,626	\$ 1,037,549
Unamortized actuarial loss	(243,627)	(270,697)
Non-Pension Post-Retirement Benefits	819,999	766,852
Accrued Pension Benefit	81,824	116,101
	\$ 901,823	\$ 882,953

Payments for these benefits totalled \$128,127 (2013 - \$107,233) 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, 2013.

MARCH 31, 2014

8. RETIREMENT AND POST-EMPLOYMENT BENEFITS (continued)

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 4.25% (2013 - 4.25%). For extended health care costs, a 6.3% annual rate of increase was assumed for 2013, decreasing to an ultimate rate of 4.0% per year for 2019. For dental costs, a 4.0% annual rate of increase was assumed.

	2014	2013
Current period benefit cost	\$ 18,378	\$ 17,214
Amortization of actuarial loss	27,070	27,070
Retirement benefit expense	45,448	44,284
Interest costs	43,721	42,579
Benefits paid	(36,022)	(31,011)
Total expense for the year	\$ 53,147	\$ 55,852

Accrued Pension Benefit

Employees hired after April 1, 2002 are not eligible to join the ONTC pension plan. OSTC has been negotiating to have these employees eligible to join retroactive to April 1, 2002. The estimated liability of the amount required to be transferred in to the pension plan has been recorded in the period in which the employees earn the pension benefit.

Actuarial valuations for accounting purposes are performed for the pension benefits using the projected benefit method, pro-rated on services. The most recent actuarial report was prepared as at January 1, 2011.

The actuarial valuation was based on a number of assumptions about future events, such as inflation rates and wage increases. The assumptions used reflect management's best estimates. The post-employment benefit liability was determined using a discount rate of 5.75% (2013 - 5.75%).

	2014	2013
Current period benefit cost	\$ 34,798	(Restated Note 18) \$ 52,498
Benefits paid	(69,075)	(26,090)
Total /expense for the year	\$ (34,277)	\$ 26,408

MARCH 31, 2014

9. 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.

	2014	2013
Accrued benefit obligation	\$ 489,989	\$ 496,155
Unamortized actuarial loss	(313,955)	(353,201)
WSIB future benefit	\$ 176,034	\$ 142,954

An actuarial valuation, dated September 5, 2013, 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 4.00%, average lost time injury payment rate of 50%, a WSIB administrative rate of 36% and an average lost time injury count of 1.

	2014
Amortization of losses	\$ 39,245
Current period benefit cost	35,059
Interest costs	19,336
Projected benefit payments	\$ (60,560)
Total expense for the year	\$ 33,080

MARCH 31, 2014

10. TANGIBLE CAPITAL ASSETS

							2014
	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	\$ 1,434,022	\$ 506,604	\$ 25,353,948	\$ -	\$ 27,390,874
Additions		-	348,050	-	153,783	4,135,453	4,637,286
Cost, end of the year	76,100	20,200	1,782,072	506,604	25,507,731	4,135,453	32,028,160
Accumulated amortization, beginning of the year	-	5,050	534,940	432,569	13,047,339	-	14,019,898
Amortization	-	1,010	80,944	23,943	576,127	34,736	716,760
Accumulated amortization, end of the year	-	6,060	615,884	456,512	13,623,466	34,736	14,736,658
Net carrying amount, end of the year	\$ 76,100	\$ 14,140	\$ 1,166,188	\$ 50,092	\$ 11,884,265	\$ 4,100,717	\$ 17,291,502

MARCH 31, 2014

10. TANGIBLE CAPITAL ASSETS (continued)

							2013
	Land	Land Improvements	Buildings and Improvements	Equipment and Other	Chi-Cheemaun Ferry		Total
Cost, beginning of the year	\$ 76,100	\$ 20,200	\$ 1,434,022	\$ 634,429	\$ 24,153,780		\$ 26,318,531
Additions	-	-	-	8,595	1,254,353		1,262,948
Disposals	-	-	-	(136,420)	(54,185)		(190,605)
Cost, end of the year	76,100	20,200	1,434,022	506,604	25,353,948		27,390,874
Accumulated amortization, beginning of the year	-	4,040	462,833	533,068	12,509,616		13,509,557
Amortization	-	1,010	72,107	35,921	588,984		698,022
Disposals	-	-	-	(136,420)	(51,261)		(187,681)
Accumulated amortization, end of the year	-	5,050	534,940	432,569	13,047,339		14,019,898
Net carrying amount, end of the year	\$ 76,100	\$ 15,150	\$ 899,082	\$ 74,035	\$ 12,306,609		\$ 13,370,976

MARCH 31, 2014

10. TANGIBLE CAPITAL ASSETS (continued)

At March 31, 2014, there were \$51,020 (2013 - \$1,216,369) Chi-Cheemaun Ferry capital assets that were not being amortized due to installation not being complete.

In 2014, OSTC purchased \$452,852 (2013 - \$1,227,056) worth of tangible capital assets with capital funding. Additional capital funding of \$Nil (2013 - \$6,375) was received for projects that did not meet the capitalization requirements and were expensed as a result. OSTC used \$81,834 (2013 - \$35,892) of its own operating funds to cover additional capital costs. On December 4, 2013 a transfer agreement was executed between OSTC and Ontario Northland Transportation Commission transferring ownership of the Niska Ferry 1 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.

11. ACCUMULATED SURPLUS

Accumulated surplus consists of the following categories:

	2014	2013
		(Restated Note 18)
Invested in tangible capital assets	\$ 17,291,502	\$ 13,370,976
Unfunded WSIB benefits	(176,034)	(142,954)
Unfunded future employee benefits	(901,823)	(882,953)
General surplus (Note 12)	1,487,236	1,285,195
Accumulated surplus	\$ 17,700,881	\$ 13,630,264

MARCH 31, 2014

12. 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 2014 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 changes in net financial assets (debt). The following is a reconciliation of the budget approved by the Board of Directors.

	2014	2014	2013
	Budget	Actual	Actual (Restated Note 18)
Annual surplus (deficit) (Page 21)	\$ 3,074,000	\$ 4,070,617	\$ 731,550
Amortization	-	716,760	698,022
Change in unfunded liabilities	-	51,950	1,453
	3,074,000	4,839,327	1,431,025
Capital acquisitions, disposals and write-down	(3,095,000)	(4,637,286)	(1,260,024)
	(21,000)	202,041	171,001
Prior year general surplus	21,000	1,285,195	1,114,194
General surplus (Note 11)	\$ -	\$ 1,487,236	\$ 1,285,195

MARCH 31, 2014

13. 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) A claim has been filed against OSTC by an individual who fell on company premises in 2011. The claim is currently being assessed by OSTC's insurance company and the outcome is not determinable at the present time.

14. COMMITMENTS

OSTC has entered into an agreement ending March 31, 2016 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.

15. COMPARATIVE AMOUNTS

Comparative figures have been reclassified to conform to the current year's financial statement presentation.

16. 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 \$1,900,000 (2013 - \$1,350,000). In 2014, OSTC received an additional \$254,942 (2013 - \$26,110) in operating funds 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 \$452,852 (2013 - \$1,233,431). Capital and operating payments received during the year totalled \$2,607,794 (2013 - \$2,609,541).

MARCH 31, 2014

16. GOVERNMENT FUNDING (continued)

In 2014 OSTC received funds of \$390,761 to reimburse the costs associated with work done on the wharf structures located at South Baymouth and Tobermory. The wharf structures are owned by Transport Canada but are used by OSTC in the operation of its ferry services. In a license agreement dated May 9, 2013 Transport Canada gave OSTC and the Ministry of Northern Development and Mines temporary access to the wharf structures in order to complete the required repairs.

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 \$462,926 in management fees for the 2013 sailing season.

The amended 5 year agreement now 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 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.

17. 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 (2013 - \$100,000).

The maximum exposure to investment credit risk is outlined in Note 4.

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, 2014 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.

MARCH 31, 2014

17. FINANCIAL INSTRUMENT RISK MANAGEMENT (continued)

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.

18. RESTATEMENT OF PRIOR PERIOD

During the year OSTC determined that the pension liability estimate from Ontario Northland Transportation Company done by Towers Watson was incorrect in the prior year. The financial statement amounts that are presented for comparative purposes have been restated to correct this error as follows:

Decrease in accrued pension benefits	\$ 104,899
Decrease in unfunded future employee benefits equity	<u>\$ 104,899</u>
Decrease in employee benefits	\$ (7,317)
Increase in accumulated surplus, beginning of the year	<u>(97,582)</u>
Increase in accumulated surplus, end of the year	<u>\$ (104,899)</u>

MARCH 31, 2014

19. 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	2014 Total
Revenue			
Ferry services	\$ 6,277,751	\$ 24,589	\$ 6,302,340
MNDM subsidy	2,346,794	261,000	2,607,794
Interest and other	238,289	130,338	368,627
Pelee Island ferry service management fee	462,926	-	462,926
Contributed capital asset	-	4,102,601	4,102,601
	<u>9,325,760</u>	<u>4,518,528</u>	<u>13,844,288</u>
Expenses			
Salaries and wages	3,641,531	80,003	3,721,534
General and administrative	1,187,851	64,571	1,252,422
Fuel	1,353,945	33,243	1,387,188
Employee benefits	869,877	-	869,877
Amortization	682,025	34,735	716,760
Services	628,090	148,975	777,065
Repairs and maintenance	640,485	64,670	705,155
Utilities	240,812	1,747	242,559
Tools and operating supplies	99,905	1,206	101,111
	<u>9,344,521</u>	<u>429,150</u>	<u>9,773,671</u>
Annual surplus (deficit)	<u>\$ (18,761)</u>	<u>\$ 4,089,378</u>	<u>\$ 4,070,617</u>

OWEN SOUND
TRANSPORTATION COMPANY
ANNUAL REPORT

2013/14

