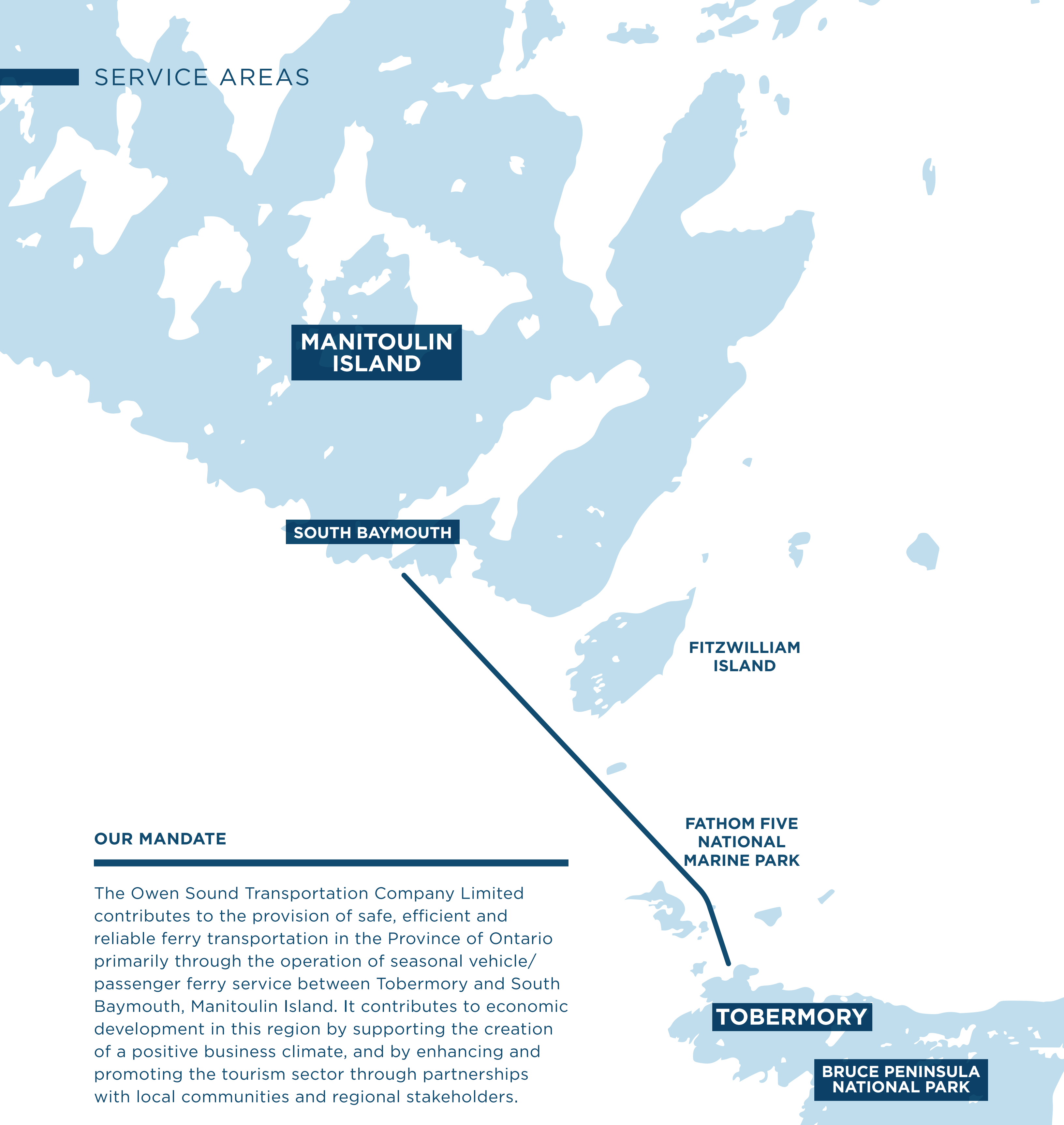
OWEN SOUND TRANSPORTATION COMPANY ANNUAL REPORT

2015/16

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.



OWEN SOUND
TRANSPORTATION COMPANY
ANNUAL REPORT

2015/16

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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 recognize the tremendous hard work of the employees and volunteers who contributed to achieving this outstanding year of progress and positive change in our ferry services. This past year, our company has formed new community partnerships, revitalized our corporate brand, launched a new website, invested $3.11 million in renovating the food service and dining areas of the M.S. Chi-Cheemaun ferry, and rolled out a highly visible marketing campaign. The marketing strategy was designed to increase public awareness and attract new travellers and tourists who make the ferry their chosen route when travelling to Manitoulin Island and Northern Ontario.

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 the 2015 Chi-Cheemaun usage increased by 10.8% in passenger and 8.1% in vehicle traffic over the 2014 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 1318 one-way crossings on a near perfect season between break-up and freeze-up, June through October, with only one minor disruption to service due to a mechanical failure.

We intend to continue to be a significant family tourism 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 of OSTC's strategic plans, goals, objectives, and daily decisions made by all OSTC employees. OSTC's 2015 success is once again 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.

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 highway 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 the ferry over the highway. We learned that our current and potential customers want our service 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

M.S. Chi-Cheemaun's new dining lounge

were taken on a guided tour 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 2015, we generated $1,246,953 in ancillary revenue from onboard amenities including food and retail services, a 20% increase over the prior year.

Major investments were made in 2015 to upgrade and modernize the ships, most significantly the renovation of Chi-Cheemaun's dining room and food servery, and OSTC's shore terminals, as well investments were made in training and development of our personnel to ensure that OSTC continues to deliver safe, efficient, reliable and accessible ferry services.

It is one thing to develop a product and quite another to market it effectively. First and foremost, OSTC is a ferry operator focused on safety, efficiency, passenger comfort and accessibility. The company does not have the internal resources needed to develop and produce a comprehensive marketing plan and campaign. The Province supported the Agency in this effort and provided funds and resources in recognition of the spin-off benefits for the communities and regions the ferry operates between, and Northern Ontario. In April, 2015 we launched the innovative 'Travel in Good Spirits' marketing campaign and demonstrated OSTC's commitment to deliver the experiential ferry service requested by our customers. Perhaps the most immediately visible component of the campaign was the colourful, larger than life sized vinyl mural that wraps Chi-Cheemaun's exhaust stack, a graphic homage to the Woodland style of art made famous by our friends and neighbours, the Anishinaabe Nation. 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."

> "While OSTC's success is once again in 2015 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."

On Monday May 4, 2015 during Chi-Cheemaun's spring repositioning cruise from her winter berth in Owen Sound to Tobermory, the ship deviated from her normal route, turned her bow to Lighthouse Point at Neyaashiinigmiing and blew a salute to Donald Keeshig who would see the ship in her new colours for the first and last time that day. Donald passed away in January of 2016. Now every spring when the ship leaves her winter berth in Owen Sound, Chi-Cheemaun deviates from course, turns her bow to the place where Donald once stood, and blows a salute in honour of Donald and his gift of wisdom, reminding us always of our responsibility to care for the Big Canoe and the people who ride within her. Chi-miigwetch, Donald. ■

SUSAN SCHREMPF
President & CEO

ABOUT THE OSTC

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 2015/16, the OSTC was responsible for the operation of four ships and six terminal and dock facilities servicing five 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. Unionized 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 Caulfield-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

OWEN SOUND TRANSPORTATION COMPANY EST. 1921

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

FINANCIAL HIGHLIGHTS (COMBINED SERVICES OSTC AND NISKA I)	2015/16	2014/15	2013/14
OPERATIONS:			
Commercial Revenues	$ 7,429,439	$ 6,669,030	$ 6,670,967
Operating Contract Revenues	$ 465,969	$ 434,902	$ 462,926
Total Revenue	**$ 7,895,408**	**$ 7,103,932**	**$ 7,133,893**
(1) Operating Expenses	$ 9,776,265	$ 9,383,315	$ 8,970,684
Marketing	$ 502,845	$ 486,330	$ -
Amortization	$ 865,893	$ 845,814	$ 716,760
Total Expense	**$ 11,145,003**	**$ 10,715,459**	**$ 9,687,444**
Loss before Provincial Funding	$(3,249,595)	$(3,611,527)	$ (2,553,551)
Provincial Funding - operating	$ 2,572,000	$ 2,810,000	$ 2,545,703
Provincial Funding - capital projects expensed in operating (1)	$ 178,687	$ 78,866	$ -
(2) Net earnings (loss)	**$(498,908)**	**$ (722,661)**	**$ (7,848)**
ASSETS:			
Financial Assets	$ 3,072,245	$ 2,225,528	$ 1,851,164
Non-financial Asset	$ 186,830	$ 66,785	$ 34,593
Investment in Capital Assets	$ 19,232,987	$ 16,994,711	$ 17,291,502
Total Assets	**$ 22,492,062**	**$ 19,287,024**	**$ 19,177,259**
NOTES TO KEY INDICATORS:			
(1) Total expenses per audited financial statements	$ 11,233,132	$ 10,802,809	$ 9,773,671
Less: Amortization (reported seperately above)	$ (865,893)	$ (845,814)	$ (716,760)
Marketing Costs (reported seperately above)	$ (502,845)	$ (486,330)	$ -
Change in WSIB	$ (39,917)	$ (37,024)	$ (33,080)
Change in Employee Future Benefits	$ (48,212)	$ (50,326)	$ (53,147)
Total Operating Expenses per Above	$ 9,776,265	$ 9,383,315	$ 8,970,684
(2) Annual surplus (deficit) per audited financial statements	$ 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)	$(3,112,169)	$ (594,803)	$ (452,852)
Remove change in WSIB Obligation	$ (39,917)	$ (37,024)	$ (33,080)
Remove change in Employee Future Benefits	$ (48,212)	$ (50,326)	$ (53,147)
Adjusted Net Loss	$ (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.”

FERRY TRAFFIC: Following the initial minor turnaround in traffic numbers experienced in the 2014 operating season and concurrent with the distribution of the first full year of the new marketing initiative in 2015, traffic numbers carried on Chi-Cheemaun surpassed the company's two-year goal and realized a 10.8% increase in passengers and 8.1% increase in vehicles in the 2015 season.

MS CHI-CHEEMAUN VEHICLE AND PASSENGER TRAFFIC 2013 - 2015

	May	June	July	Aug	Sept	Oct	Total	% change from prior year
VEHICLES								
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								
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	1,324	166,224	-6.79%

MARKETING: The most significant recommendation coming from OSTC's 2013 Ferry Marketing Feasibility Report was for the ferry service to embrace the vision of the ferry as a tourism destination or part of a destination as opposed to simply being a transportation link between Tobermory and Manitoulin Island, and then market the service in support of that vision.

Through the 2014 operating season, OSTC developed and implemented on-board passenger entertainment as well as educational and enrichment opportunities focused on the unique social and cultural features of the area of operation, with special emphasis on Manitoulin Island. Simultaneous to those activities, OSTC engaged Cleansheet Communications through a competitive procurement process conducted by the Advertising Review Board (an Agency of the Province of Ontario), to develop a strong marketing message and supporting creative content for the ferry's new image.

In 2015/16 the "Travel in Good Spirits" marketing campaign went public and received outstanding positive feedback. The campaign was not limited to mainstream media but also utilized the ship itself as its own billboard furthering the image of the ferry being a tourism destination. Cleansheet's creative team developed artwork to cover the ship in brilliant and colourful graphic imagery, an homage to the Woodland style of art for which Manitoulin Island is known with the symbols and images on the ship reflective of the region's rich culture.

The first full year of the marketing campaign included a new customer focused website, poster campaigns in the TTC and on GoTransit, radio, digital, and focused campaigns on multiple social media platforms.

BUSINESS DEVELOPMENT: OSTC expanded the on-board passenger experience to include authentic Indigenous craft demonstrations and story-telling, nightly guided tours of Lake Huron's Dark Skies in the month of August, dining and entertainment cruises on selected round trip crossings featuring Canadian award winning musicians, a floating Art show in the onboard gallery curated by the Tom Thomson Art Gallery in Owen Sound, and the first Annual "Crafts on the Crossing" show and sale with work from area artisans. Park's Canada interpreters were on board again through the summer season providing passengers with information on the unique natural wonders of the region, above and below the water.

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

KEY ACCOMPLISHMENTS

MAJOR CAPITAL: Over $3.5 million in capital projects were completed during the year, the largest of which was the complete renovation of the Chi-Cheemaun's dining room and food servery area, the first complete 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, purchase of new furniture and fixtures, exchange of fluorescent light banks with dimmable LED pot lights, the installation of a new beverage service area in the port side dining room, and a complete restructuring of the public food servery with more opportunities for faster service through self-serve options. Colours selected for surface materials, floor coverings and servery equipment were specifically coordinated in keeping with the designs and colours found in the company's marketing creative, and the award-winning vinyl decal art applied to the vessel's exhaust stack in spring 2014.

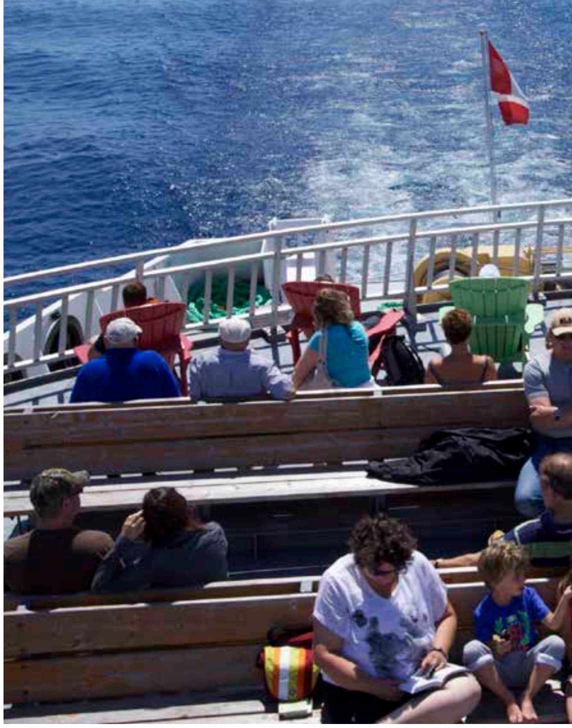
OSTC also replaced the outside ticket booths in the vehicle loading lots with glass and stone structures designed to match the architectural style of the main terminal buildings, and make the interaction between the Ticket Agents and vehicles safer and more accessible.

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. Chi-Cheemaun experienced a hydraulic failure in the steering system and lost 3 of the 8 scheduled round trips on June 30 and July 1 while repairs were undertaken. Approximately 544 vehicles that were scheduled to travel on the ship either cancelled their trip or drove around Georgian Bay in the two day period.

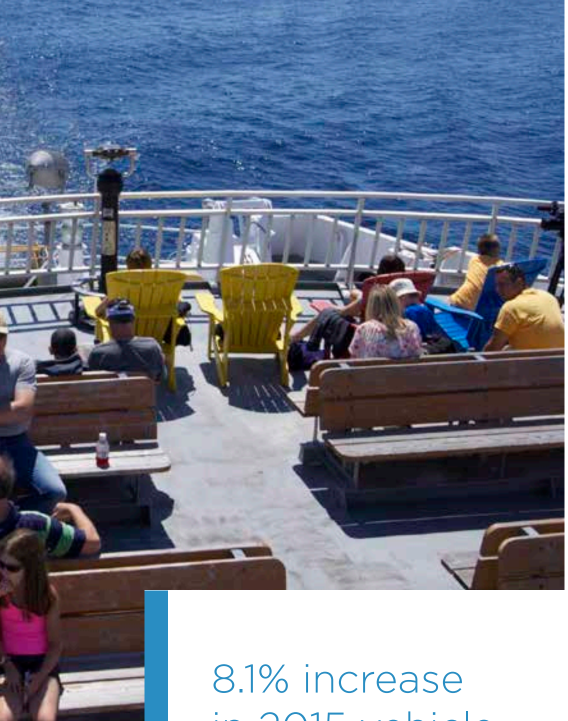
10.8%

Increase in 2015 passenger traffic on the Chi-Cheemaun, surpassing the OSTC's two year goal in year one.



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 2015/16 was focused on the identification and reporting of near misses, and the continuing development of comprehensive risk management strategies, policies and procedures.

OSTC did not experience any safety or environmental non-compliance incidents in 2015/16.



8.1% increase in 2015 vehicle traffic on the Chi-Cheemaun, surpassing the OSTC's two year goal in year one.

OSTC enrolled (all four vessels the company has operational responsibility over) in the Green Marine certification program in 2014. The company underwent its first 2-year external audit in spring 2016 and received our second 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 Industrial Regulations, and not the Marine Occupational Safety and Health 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 Occupational Health and Safety Regulations during the 2015/16 period that affected OSTC.

CUSTOMER SATISFACTION: OSTC did not conduct a Customer Survey in 2015/16 as the completion and return rate was too low in prior years to provide any realistic guidance to the company with customer satisfaction rates routinely measured at 98%. When asked to complete the survey in hard copy or online, customers have expressed that they are "survey fatigued". OSTC is developing new methods of measuring customer satisfaction that can be used for continuous service improvement and will be implemented as part of the new online comprehensive reservation and advance ticket purchase system.

MOOSONEE/MOOSE FACTORY ISLAND FERRY: Higher than normal water levels assisted in maintaining a consistent and predictable level of ferry service for the transportation of vehicles, passengers and freight between Moosonee and Moose Factory Island in 2015. Overall traffic increased by approximately 15% as the result of the longer operating season and only one mechanical disruption – a steering gear failure in September 2015 which was resolved by taking the vessel out of service for two hours to complete the repair.

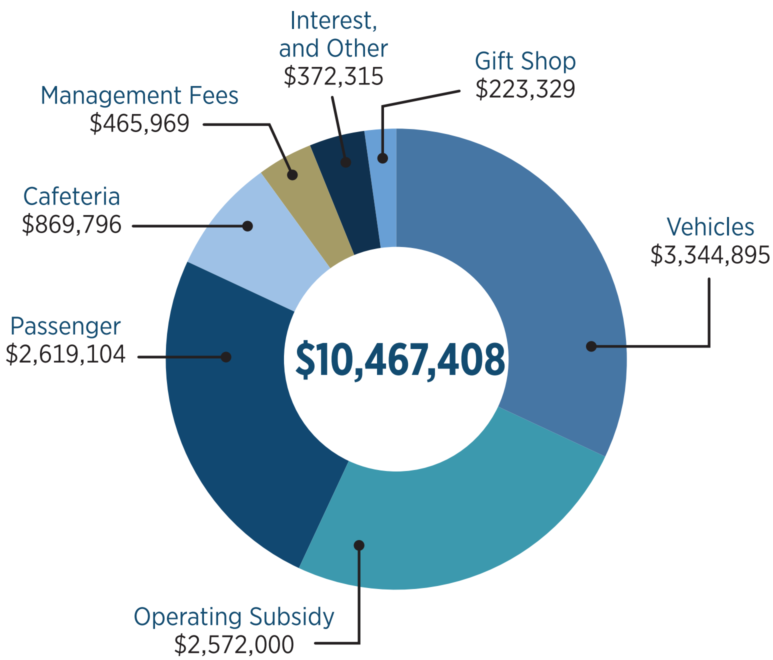
OSTC and its sub-contracted vessel operator, Complex RE provided co-op work placement opportunities on board Niska I to high school students over age 16 where the students would learn about vessel operations and provide assistance to the Senior Deckhand with loading and daily vessel maintenance. ■

CHI-CHEEMAUN REVENUES:
Traffic on the MS Chi-Cheemaun, and corresponding revenue from traffic and on-board spending exceeded budgeted expectations by 7.44%. Revenue from Chi-Cheemaun operations for 2015/16 was $7,031,805 versus the budgeted amount of $6,544,763 based on achieving a 2% overall increase in traffic over traffic levels carried in 2014/15. This improved performance has narrowed the gap between expenses and revenues from operations to 78.56% expense costs recovered from revenue in 2015/16, up from 73.54% in 2014/15, meaning that the operating subsidy per passenger provided by the Province has been reduced even further to 21.44% of actual cost.

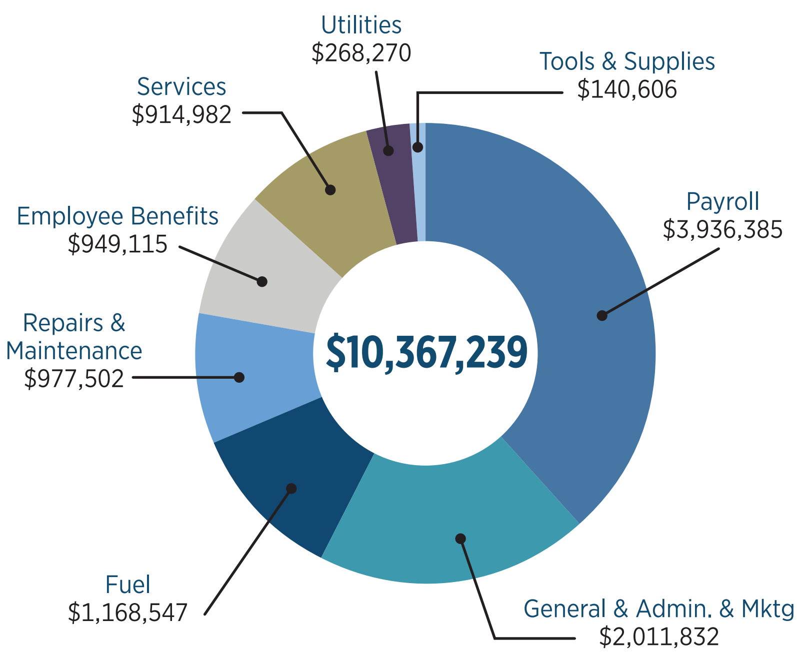
The start to Chi-Cheemaun's 2015 ferry season was delayed by five days on account of late spring ice in Georgian Bay and Lake Huron. Management announced the delay in March and rescheduled the early spring charters and Annual Spring Cruise to ensure these important cruise events were not forced into cancellation at the last minute if the decision was not made until May. The late start meant that the ferry service theoretically lost approximately 274 vehicles that may have been carried (based on prior year usage over those days), or $20,000 in revenue. The service disruption experienced on June 30 and July 1 during which three round trips were lost while the vessel underwent repairs was estimated to have caused a loss of approximately 544 vehicles (based on prior year usage over the same dates), or $40,000 in revenues.

OSTC's operating contract with the 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 for the new ferry project. MTO announced in October 2015 that a new ship would be built for introduction into service in 2018, to replace the aging MV Pelee Islander. OSTC's annual management contract with MTO

2016 Operating Revenue



2016 Operating Expenses



generated $465,969 in 2015/16 after having been validated in a 2014 "value for service" audit subsequent to the extension of the agreement.

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 events. After experiencing a 10% increase in fuel costs from 2013/14 to 2014/15 following the introduction of reduced sulphur emission standards, OSTC had anticipated fuel costs would begin to stabilize for the near future and budgeted accordingly. Due to changes in market conditions in 2015 that were favourable to buyers, OSTC's actual fuel costs for 2015/16 were 23% lower than 2014/15 costs for the same amount of fuel use, resulting in a $350,000 savings from budget.

Wages and Benefits costs for 2015/16 exceeded budget by 2% following a late arbitration decision made for the settlement of the Collective Bargaining Agreement between OSTC and the Seafarers International Union of Canada who represent the non-management dock workers and all unlicensed personnel on Chi-Cheemaun. The arbitration decision awarded the workers retroactive wage increases for the two years in which the agreement had been expired, and for the remaining three years of the agreement that will expire on December 31, 2018.

OSTC also resolved the long-standing matter of finding an appropriate pension plan in which to enroll management employees hired after April 1, 2002 when OSTC was separated from the Ontario Northland Transportation Commission. Existing employees remained in the ONTC Pension Plan, but new employees were ineligible to join. The specifically affected OSTC employees and all future OSTC management employees became eligible to enter the Ontario Public Service Pension Plan (PSPP) by Order-In-Council decision effective July 2015. In August and September 2015, OSTC provided each of the affected employees with a commuted value pay-out for the period where no pension contributions had been made between their hire date and July 2015, following which all company and employee pension contributions are made to the PPSP.

OSTC's new marketing campaign and redesigned website went public in spring 2015 at a total cost of $500,000, the positive impact of which was experienced immediately and contributed to the favourable turnaround in ferry traffic. Passenger traffic increased by 10.8% and vehicle traffic increased by 8.1% which resulted in additional revenues of $647,083 in 2015/16.

Repair and Maintenance expenses exceeded budget by 20% in order to conduct the overhaul of the ship's generators in advance of their due date. This was done to better distribute main engine and generator mandatory overhaul and inspection cycles, all of which were due at the same time following the installation of new machinery in 2007 and 2008. This cost was more than offset by the savings in fuel costs.

NISKA I REVENUES AND EXPENSES: Revenue from ferry services exceeded budget by $45,423 due to an increase in traffic levels experienced by operating the ferry on selected weekends in spring and fall to accommodate large shipments and community events, as well as higher than normal water levels that resulted in very few lost sailings.

Expenses exceeded budget by $184,330, of which $52,341 was to complete the work resulting from the mandatory five year out-of-water inspection completed in fall of 2014, with repair work not able to be completed until late spring 2015 as the vessel is wintered outdoors in Moosonee and exposed to the elements. The cost of this work was offset by receipt of $52,341 in capital funding from the Ministry.

The remaining excess expense is attributed largely to $35,657 in additional repair and maintenance costs (and travel costs for outside contractors). The remaining $96,332 over-expenditure is attributed to higher than budgeted inspection costs due to Transport Canada inspections being mandated to be handed over to Classification Societies, and a $40,000 increase in expense for the use of contracted services. Contract services include Niska I subcontracted operator's annual fee, fees paid to local contractors to construct and deconstruct the ferry landings in Moosonee and Moose Factory Island several times over the season

in response to tidal water level changes, and the fees charged for hauling the vessel out of the water in winter and launching in spring, as well as winter storage.

The Moosonee to Moose Factory Island ferry service had an annual operating loss of $465,906 before Provincial subsidy of $427,706, or 31.62% of the operating cost per one-way crossing. The remaining $38,000 deficit is accounted for as a reduction in OSTC's accumulated general surplus.

FINANCIAL OVERVIEW – SUMMARY: Overall 2015/16 operating costs for Chi-Cheemaun and Niska I were 2.8% higher than budget, offset by total revenues 11% higher than budget. Total operating expenses for the year (excluding amortization) were $10,367,239. OSTC experienced a net operating loss of $2,471,831 before the Provincial operating subsidy of $2,572,000 which included $500,000 for marketing and $150,000 for pension settlement payments.

The remaining deficit was offset by revenue of $465,969 earned through OSTC's additional external management contracts.

Capital asset investment of $3,290,856 included the renovation of the Chi-Cheemaun's dining room and food servery area, security and accessibility enhancements to ship and shore facilities, and new ticket booths for the Tobermory and South Baymouth ferry terminals. ■

OWEN SOUND TRANSPORTATION COMPANY LIMITED

FINANCIAL STATEMENTS

For the year ended March 31, 2016

CONTENTS

FINANCIAL STATEMENTS

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
October 5, 2016

Tel: 519 376 6110
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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, 2016 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, 2016 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
October 5, 2016

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION

MARCH 31	2016	2015
Financial Assets		
Cash and cash equivalents (Note 2)	**$ 42,824**	$ 1,218,637
Accounts receivable (Note 3)	**2,983,435**	976,140
Inventory held for resale	**45,986**	30,751
	3,072,245	2,225,528
Liabilities		
Bank indebtedness (Note 4)	**856,736**	-
Accounts payable and accrued liabilities	**432,109**	603,282
Employee future benefit obligations (Note 6)	**939,438**	985,012
Workers' safety insurance obligations (Note 7)	**252,975**	213,058
	2,481,258	1,801,352
Net financial assets	**590,987**	424,176
Contingencies (Note 11)		
Non-financial assets		
Inventory for own use	**186,205**	66,160
Prepaid expenses	**625**	625
Tangible capital assets (Note 8)	**19,232,987**	16,994,711
	19,419,817	17,061,496
Accumulated surplus (Note 9)	**$ 20,010,804**	$ 17,485,672

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	2016	2016	2015
	Budget (Note 10)	**Actual**	Actual
Revenues			
Ministry of Northern Development and Mines subsidy (Note 13(a))	$ 5,169,000	**$ 5,862,856**	$ 3,483,668
Vehicles	3,098,741	**3,344,895**	3,096,238
Passenger revenue	2,364,215	**2,619,104**	2,363,085
Cafeteria	747,433	**869,796**	747,950
Pelee Island ferry service management fee (Note 13 (b))	480,237	**465,969**	434,902
Interest, freight and other	312,036	**372,315**	264,078
Tuck and terminal gift shop revenue	197,838	**223,329**	197,679
	12,369,500	**13,758,264**	10,587,600
Expenses			
Salaries and wages	3,856,069	**3,936,385**	3,653,408
General and administrative expenses	1,784,839	**2,011,832**	1,896,773
Fuel	1,528,000	**1,168,547**	1,521,464
Repairs and maintenance	755,551	**977,502**	840,380
Employee benefits	989,575	**949,115**	866,822
Services	821,386	**914,982**	821,239
Amortization	-	**865,893**	845,815
Utilities	230,280	**268,270**	242,646
Tools and operating supplies	119,800	**140,606**	114,262
	10,085,500	**11,233,132**	10,802,809
Annual surplus (deficit) (Note 10)	2,284,000	**2,525,132**	(215,209)
Accumulated surplus, beginning of the year	17,485,672	**17,485,672**	17,700,881
Accumulated surplus, end of the year	$ 19,769,672	**$ 20,010,804**	$ 17,485,672

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

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED

STATEMENT OF CHANGES IN NET FINANCIAL ASSETS

FOR THE YEAR ENDED MARCH 31	2016	2016	2015
	Budget (Note 10)	**Actual**	Actual
Annual surplus (deficit) (Page 5)	$ 2,284,000	**$ 2,525,132**	$ (215,209)
Acquisition of tangible capital assets	(2,284,000)	**(3,112,169)**	(594,803)
Amortization of tangible capital assets	-	**865,893**	845,815
Loss on the disposal of capital assets	-	**8,000**	-
	(2,284,000)	**(2,238,276)**	251,012
	-	**286,856**	35,803
Change in inventories for own use	-	**(120,045)**	12,129
Change in prepaid expense		**-**	1,458
Increase in net financial assets	-	**166,811**	49,390
Net financial assets, beginning of the year	424,176	**424,176**	374,786
Net financial assets, end of the year	$ 424,176	**$ 590,987**	$ 424,176

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31	2016	2015
Cash provided by (used in)		
Operating activities		
Annual surplus (deficit)	**$ 2,525,132**	$ (215,209)
Items not affecting cash		
Amortization	**865,893**	845,815
Loss on disposal of capital assets	**8,000**	-
Change in workers' safety insurance obligations (Note 7)	**39,917**	37,024
Change in employee future benefit obligations (Note 6)	**(45,574)**	83,189
	3,393,368	750,819
Changes in non-cash working capital balances		
Accounts receivable	**(2,007,295)**	(527,064)
Inventory held for resale	**(15,235)**	10,694
Inventory for own use	**(120,045)**	12,129
Prepaid expenses	**-**	1,458
Accounts payable and accrued liabilities	**(171,173)**	204,761
	1,079,620	452,797
Investing activities		
Purchase of capital assets	**(3,112,169)**	(594,803)
Financing activities		
Increase in bank indebtedness	**856,736**	-
Change in cash and cash equivalents during the year	**(1,175,813)**	(142,006)
Cash and cash equivalents, beginning of the year	**1,218,637**	1,360,643
Cash and cash equivalents, end of the year	**$ 42,824**	$ 1,218,637

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

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2016

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 I, 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.

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.

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, 2016

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, 2016

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, 2016

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.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2016

2. CASH AND CASH EQUIVALENTS

		2016		2015
Cash on hand	$	14,300	$	5,950
Bank		26,780		1,211,190
In transit		1,744		1,497
	$	42,824	$	1,218,637

On March 31, 2016, the company had deposits of $1,515,391 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

		2016		2015
Ministry of Northern Development and Mines	$	2,356,380	$	315,614
Ministry of Transportation		263,167		406,975
Other		363,888		253,551
	$	2,983,435	$	976,140

4. BANK INDEBTEDNESS

		2016		2015
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, 2016 the company had undrawn credit capacity under this facility of $2,000,000.

MARCH 31, 2016

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 2016 by the Owen Sound Transportation Company Limited was $83,244 (2015 – $47,843). Members contribute 5.00% (2015 – 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% (2015 – 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). Ongoing adequacy of the current contribution rates will need to be monitored as financial market fluctuations may lead to increased future funding requirements.

Ontario Public Service Pension Plan

Employees hired after April 1, 2002 were not eligible to join the ONTC pension plan. OSTC had been negotiating with the Province to have these employees eligible to join the ONTC plan, or a comparable plan, retroactive to April 1, 2002. On August 13, 2015, the Province of Ontario approved through Order In Council, that "all non-bargaining unit employees of OSTC hired after April 1, 2002 are designated as a class of employees who are entitled to be members of the Ontario Public Service Pension Plan ("PSPP") and shall, upon filing a written election to be a member with the Ontario Pension Board, become members of the PSPP; and further that OSTC shall be an employer under the PSPP for the purposes of the employees designated in this Order." Employees received a payout of the amounts they had accumulated that were calculated as if they had been included in the ONTC pension plan that totaled $119,911. They were then given the option to enrol into the PSPP.

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 2016 by the Owen Sound Transportation Company Limited was $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, 2015. At that time the plan reported a $434 million actuarial deficit, based on actuarial liabilities of $23.5 billion and actuarial assets of $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, 2016

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:

		2016		2015
Current period benefit cost	$	1,108,024	$	1,086,882
Unamortized actuarial loss		(189,487)		(216,557)
Non-Pension Post-Retirement Benefits		918,537		870,325
Accrued Pension Benefit		20,901		114,687
	$	939,438	$	985,012

Non-Pension Benefits

Payments for these benefits totalled $123,008 (2015 – $116,546) 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.

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% (2015 – 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.

		2016		2015
Current period benefit cost	$	20,780	$	19,542
Amortization of actuarial loss		27,070		27,070
Retirement benefit expense		47,850		46,612
Interest costs		45,671		44,747
Benefits paid		(45,309)		(41,033)
Total expense for the year	$	48,212	$	50,326

MARCH 31, 2016

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.

	2016	2015
Accrued benefit obligation	$ 488,440	$ 487,769
Unamortized actuarial loss	(235,465)	(274,711)
WSIB future benefit	$ 252,975	$ 213,058

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.

	2016	2015
Current period benefit cost	$ 37,920	$ 36,455
Amortization of losses	39,244	39,245
WSIB benefit expense	77,164	75,700
Interest costs	19,141	19,172
Benefits paid	(56,388)	(57,848)
Total expense for the year	$ 39,917	$ 37,024

8. TANGIBLE CAPITAL ASSETS

At March 31, 2016, there were $3,112,092 (2015 – $82,151) Chi-Cheemaun Ferry capital assets that were not being amortized due to installation not being complete.

In 2016, OSTC purchased $3,112,169 (2015 – $594,803) worth of tangible capital assets with capital funding. Additional capital funding of $178,687 (2015 – $78,865) was received for projects that did not meet the capitalization requirements and were expensed or classified as inventory for own use as a result. OSTC used $Nil (2015 – $Nil) of its own operating funds to cover additional capital costs.

MARCH 31, 2016

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

MARCH 31, 2016

8. TANGIBLE CAPITAL ASSETS (continued)

2015

	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	$ 1,782,072	$ 506,604	$ 25,461,952	$ 4,135,453	$ 31,982,381
Additions	-	-	14,923	77,384	383,317	119,179	594,803
Cost, end of the year	76,100	20,200	1,796,995	583,988	25,845,269	4,254,632	32,577,184
Accumulated amortization, beginning of the year	-	6,060	615,884	456,512	13,623,466	34,736	14,736,658
Amortization	-	1,010	125,121	24,170	552,189	143,325	845,815
Accumulated amortization, end of the year	-	7,070	741,005	480,682	14,175,655	178,061	15,582,473
Net carrying amount, end of the year	$ 76,100	$ 13,130	$ 1,055,990	$ 103,306	$ 11,669,614	$ 4,076,571	$ 16,994,711

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9. ACCUMULATED SURPLUS

Accumulated surplus consists of the following categories:

		2016		2015
Invested in tangible capital assets	**$**	**19,232,987**	$	16,994,711
Unfunded WSIB benefits		**(252,975)**		(213,058)
Unfunded future employee benefits		**(939,438)**		(985,012)
General surplus (Note 10)		**1,970,230**		1,689,031
Accumulated surplus	**$**	**20,010,804**	$	17,485,672

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 2016 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.

		2016		2016		2015
		Budget		**Actual**		Actual
Annual surplus (deficit) (Page 5)	$	2,284,000	**$**	**2,525,132**	$	(215,209)
Amortization		-		**865,893**		845,815
Change in unfunded liabilities		-		**(5,657)**		120,213
		2,284,000		**3,385,368**		750,819
Capital acquisitions, disposals and write-down		(2,284,000)		**(3,104,169)**		(594,803)
		-		**281,199**		156,016
Prior year general surplus		-		**1,689,031**		1,533,015
General surplus (Note 9)	$	-	**$**	**1,970,230**	$	1,689,031

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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.

c) The collective agreement with the Seafarer's International Union of Canada expired on December 31, 2013. On November 3, 2015 through arbitration OSTC and the Union settled on an agreement that allowed OSTC to retroactively pay their employees for the agreed upon wage increase. As at March 31, 2016 the collective agreement has not been signed as it is still in review but the terms of the new agreement were enforceable through the interest arbitration award under the provisions of S.40 of the Ontario Labour Relations Act, 1995.

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 $2,572,000 (2015 – $2,810,000). In 2016, OSTC received no additional funds (2015 – $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 $3,112,169 (2015 – $594,803). Additional capital funding of $178,687 (2015 – $78,865) was received for projects that did not meet the capitalization requirements. Capital and operating payments received during the year totalled $5,862,856 (2015 – $3,483,668).

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 $465,969 in management fees for the 2015 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.

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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	2016 Total	2015 Total
Revenue				
Ferry services	$ 7,031,805	$ 25,319	$ 7,057,124	$ 6,404,952
MNDM subsidy	5,435,150	427,706	5,862,856	3,483,668
Pelee Island ferry service management fee	465,969	-	465,969	434,902
Interest, freight and other	182,211	190,104	372,315	264,078
	13,115,135	643,129	13,758,264	10,587,600
Expenses				
Salaries and wages	3,846,966	89,419	3,936,385	3,653,408
General and administrative	1,869,836	141,996	2,011,832	1,896,773
Fuel	1,140,818	27,729	1,168,547	1,521,464
Repairs and maintenance	799,604	177,898	977,502	840,380
Employee benefits	949,115	-	949,115	866,822
Services	683,839	231,143	914,982	821,239
Amortization	865,893	-	865,893	845,815
Utilities	264,502	3,768	268,270	242,646
Tools and operating supplies	131,230	9,376	140,606	114,262
	10,551,803	681,329	11,233,132	10,802,809
Annual surplus (deficit)	$ 2,563,332	$ (38,200)	$ 2,525,132	$ (215,209)

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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 (2015 – $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, 2016 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.

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

	2015		
	Fair Value	Cost	Total
Cash and cash equivalents	$ 1,218,637	$ -	$ 1,218,637
Accounts receivable	$ -	$ 976,140	$ 976,140
Accounts payable and accrued liabilities	$ -	$ 603,282	$ 603,282

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.

18. COMPARATIVE AMOUNTS

Certain comparative figures have been reclassified to conform with the current year's financial statements presentation.

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