



2014/2015

OWEN SOUND
TRANSPORTATION
COMPANY
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

2014/15

CONTENTS

Service Areas	2
Mandate	2
Message from the Chair	4
Message from the President/CEO	6
About the OSTC	7
Corporate Governance	8
Operational Overview – Key Performance Indicators	9
Operational Overview – Accomplishments	11
Management’s Discussion	14
Financial Statements – Management’s Responsibility	16
Financial Statements – Independent Auditor’s Report	17

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
www.ontarioferries.com ISSN 1925-2366



Barney Hopkins,
Chairman of the OSTC
Board of Directors

I am honoured that my term of appointment as the Chair of the Owen Sound Transportation Company (OSTC) Board of Directors has been extended into 2017 and am pleased that the terms of my four fellow volunteer Directors have been similarly lengthened. We each and all thank the Ontario government for their confidence.

In my continuing capacity as Chair, I would like to commend the Company's management, employees and volunteers for

their solid effort and significant achievement in making 2014/15 a turnaround year for our core Chi-Cheemaun passenger and vehicle ferry business, after six years of decline. They are to be congratulated as well in 2014/15 for the successful assumption of the ownership and then operation of the MV Niska I which provides vehicle, freight and passenger transportation

"I further believe that our working arrangement with the Moose Cree First Nation, which provides Niska I crews and daily vessel operation, is a model of respectful, effective collaboration with our Indigenous partners."

services between Moosonee and Factory Island on the Moose River at the mouth of James Bay.

While small, the positive increases in vehicle (1.98%) and passenger (0.82%) traffic levels for the Chi-Cheemaun in the 2014 operating season are welcome early validation of the success of the planning, marketing, and promotional

initiatives authorized by the OSTC Board and implemented by management over the previous two years. We expect that in 2015/16 this traffic will rebound more markedly as the ferry makes the transition from being predominantly known as a method of transportation to becoming more of a tourist destination and attraction.

Looking forward as well, an important Board priority will be to continue to encourage

and facilitate strong, mutually beneficial relationships with the communities and regions that the OSTC serves. This is at the heart of the repositioning of the Chi-Cheemaun with Manitoulin Island, Neyaashiinigmiing, Bluewater, Bruce, Grey and Owen Sound community organizations and governments in 2014/15. I further believe that our working arrangement with the Moose Cree First Nation, which provides Niska I crews and daily vessel operation,

is a model of respectful, effective collaboration with our Indigenous partners. ■

BARNEY HOPKINS

Chairman of the OSTC
Board of Directors



M.S. Chi-Cheemaun's dining lounge

MESSAGE FROM THE PRESIDENT/CEO

In keeping with our mandate from the Province of Ontario, it is the ongoing primary goal of the OSTC to provide safe, secure, regulatory compliant, comfortable, accessible and environmentally responsible marine transportation services between Tobermory and Manitoulin Island. As described in this Annual Report, I am pleased to report that the OSTC took a fundamental step forward in better advancing the achievement of this multi-faceted goal over the 2014 operating season. But, for the second successive year, it was not without an early challenge.

Tobermory, resulting in 1.5 day delay to the start of the regular season operation which began on Saturday afternoon, May 3, instead of Friday morning May 2, 2014. This uncertainty around the start of the date resulted in cancellations of up to a week's worth of pre-arranged customer reservations. The delay and cancellations, compounded by winter like weather through much of the spring had an equally numbing effect on ferry traffic.

Happily, reasonable/ normal weather conditions and resurgent water levels over

was the implementation of some attractive initial elements of the recommendations of a professional Market Feasibility Study which was completed in 2012/13. The study took a comprehensive look at all customer-related aspects of the Tobermory to Manitoulin Island Ferry service. Its focus - which has turned out to be successful to date - was on generating more vehicle and passenger traffic and revenue through additional marketing and new on-board entertainment and boutique initiatives aimed at improving the customer's on-board experience and spending.

"Over the year, OSTC continued to operate as close to the financial margin as possible while maintaining a high standard of operational safety. We worked independently when warranted but preferred, when possible, to collaborate with community partners to identify, develop and implement business growth opportunities with the intended goal of providing a comfortable and enjoyable transportation experience that customers will choose over other alternatives, regardless of the customers' geographic location, origin or destination."

Over the year, OSTC continued to operate as close to the financial margin as possible while maintaining a high standard of operational safety. We worked independently when warranted but preferred, when possible, to collaborate with community partners to identify, develop and implement business growth opportunities with the intended goal of providing a comfortable and enjoyable transportation experience that customers will choose over other alternatives, regardless of the customers' geographic location, origin or destination. ■

A delay and associated uncertainties over the start date for the Chi-Cheemaun's 2014 operating season due to late ice break-up caused the OSTC to postpone the annual Scenic City Order of Good Cheer fundraising charter by one week and cancel the Annual Spring Positioning Cruise from Owen Sound to

the balance of the 2014 operating season helped the OSTC overcome this early obstacle and overall traffic numbers improved modestly over 2013, reversing a six year downward trend. Beyond these positive weather and water conditions, the major factor contributing to the upswing

SUSAN SCHREMPF
President & CEO



The Owen Sound Transportation Company Limited (OSTC) was established under the Ontario Business Corporations Act of the Province of Ontario 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 head office in Owen Sound, Ontario.

OSTC is an integral part of Ontario's tourism and transportation system. During 2014/15 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 M.S. 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 is a landing craft ferry which was acquired in 2013 from the ONTC and is now owned and operated by the OSTC. It provides vehicle, freight and passenger transportation services between Moosonee and Moose Factory Island on the Moose River at the mouth of James Bay.

As well, the OSTC is contracted by the Ontario 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 the OSTC's workforce consisted of 30 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 which expired on December 31, 2013 and were not re-negotiated in 2014/15. Arbitration is pending.

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	638 psgr/140 veh	Tobermory-South Baymouth	May - Oct	120
Niska I	27m	47 psgr/6 veh	Moosonee-Moose Factory Island	June - Oct	20
Jiimaan	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 the OSTC's Ministerial appointed volunteer 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.

In the 2014 Budget, the Ontario government committed to providing all appointees to its agencies with governance training appropriate to their oversight responsibilities. To meet this commitment, all OSTC Directors have completed the Governance Training for Public Appointees E-Module or in-person training sessions, immediately following appointment or re-appointment to the Board.

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 2015)

John Greenway

Vice Chair - South Baymouth
(01 April 2007 – 31 March 2015)

Martin Garfield Brown

Director, South Baymouth
(01 July 2005 – 30 June 2015)

Hugh Moggy

Director, Manitowaning
(01 June 2007 – 31 May 2015)

Bill Caulfeild-Browne

Director, 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



KEY INDICATORS	2014/15	2013/14	2012/13
CHI-CHEEMAUN			
1 Income per passenger (ticket and on-board sales)	\$ 38.74	\$ 39.20	\$ 38.28
2 Expense per passenger (operating only, not including "6")	\$ 52.67	\$ 52.11	\$ 47.55
3 Percentage of operating expenses recovered from income	73.54%	75.22%	80.50%
4 Retail Service Revenue per passenger	\$ 5.64	\$ 6.40	\$ 5.65
5 Advertising expense per passenger	\$ 1.11	\$ 1.16	\$ 0.90
6 New Branding Mktg Campaign cost per passenger	\$ 2.90	\$ —	\$ —
Fuel expense per one-way crossing (avg from total fuel cost)	\$ 1,465.76	\$ 1,422.21	\$ 1,270.29
Passengers carried	167,593	166,224	178,339
Utilization - passengers	25.63%	27.37%	28.64%
Vehicles carried	67,699	66,385	70,951
Utilization - vehicles	47.93%	54.68%	57.24%
Annual total # of departures	1038	952	976
Average # of vehicles per departure	65	70	73
Average # of passengers per vehicle per departure	2.48	2.50	2.51
NISKA I			
Income per passenger (ticket sales)	\$ 79.64		
Expense per passenger (operating only)	\$ 274.53		
Percentage of operating expenses recovered from income	29.01%		
Fuel expense per one-way crossing (avg from total fuel cost)	\$ 30.34		
Passengers carried	2226		
Vehicles carried	2828		
Annual total # of departures	1167		
Average # of vehicles per departure	2.42		
Average # of passengers per vehicle per departure	1.91		

OPERATIONAL OVERVIEW

KEY PERFORMANCE INDICATORS

FINANCIAL HIGHLIGHTS (COMBINED SERVICES OSTC AND NISKA I)	2014/15	2013/14	2012/13
OPERATIONS:			
Commercial Revenue	\$ 6,669,030	\$ 6,670,967	\$ 6,825,939
Operating Contract Revenue	\$ 434,902	\$ 462,926	\$ 575,200
Market Study Grants	\$ —	\$ —	\$ 109,186
Total Revenue	\$ 7,103,932	\$ 7,133,893	\$ 7,510,325
(1) Operating Expenses	\$ 9,350,452	\$ 9,004,961	\$ 8,703,222
Marketing (Marketing Case Study)	\$ 486,330	\$ —	\$ 111,964
Amortization	\$ 845,814	\$ 716,760	\$ 698,022
Total Expense	\$ 10,682,596	\$ 9,687,444	\$ 9,289,280
Loss before Provincial Funding	\$ (3,578,664)	\$ (2,553,551)	\$ (1,778,955)
Provincial Funding - operating	\$ 2,810,000	\$ 2,545,703	\$ 1,376,110
Provincial Funding - capital projects expensed in operating (1)	\$ 78,866	\$ —	\$ 6,375
(2) Net earnings (loss)	\$ (689,798)	\$ (7,848)	\$ (396,470)
ASSETS:			
Financial Assets	\$ 2,225,528	\$ 1,851,164	\$ 2,280,378
Non-financial Assets	\$ 21,006	\$ 34,593	\$ 19,340
Investment in Capital Assets	\$ 17,040,490	\$ 17,291,502	\$ 13,370,976
Total Assets	\$ 19,286,399	\$ 19,177,259	\$ 15,670,694
NOTES TO KEY INDICATORS:			
(1) Total expenses per audited financial statements	\$ 10,802,809	\$ 9,773,671	\$ 9,388,316
Less: Amortization (reported separately above)	\$ (845,814)	\$ (716,760)	\$ (698,022)
Marketing Costs (reported separately above)	\$ (486,330)	\$ —	\$ 111,964
Change in WSIB	\$ (37,024)	\$ (33,080)	\$ (57,901)
Change in Employee Future Benefits	\$ (83,189)	\$ (18,870)	\$ (41,135)
Total Operating Expenses per Above	\$ 9,350,452	\$ 9,004,961	\$ 8,703,222
(2) Annual surplus (deficit) per audited financial statements	\$ (215,209)	\$ 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)	\$ (594,803)	\$ (452,852)	\$ (1,227,056)
Remove change in WSIB Obligation	\$ (37,024)	\$ (33,080)	\$ (57,901)
Remove change in Employee Future Benefits	\$ (83,189)	\$ (18,870)	\$ (41,135)
Adjusted Net Loss	\$ (930,225)	\$ 3,565,815	\$ (594,542)

* 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: After six years of decline in ridership, 2014/15 was a turnaround year for the Chi-Cheemaun passenger and vehicle ferry business. While small, the positive increases in vehicle (1.98%) and passenger (0.82%) traffic levels for the Chi-Cheemaun in the 2014 operating season represent early validation of the success of the planning, marketing, and promotional initiatives

and began on Saturday afternoon, May 3, instead of Friday morning May 2, 2014. The direct result was that customers cancelled up to a week's worth of ferry reservations. The delay and cancellations, compounded by winter like weather through much of the spring had an equally numbing effect on traffic.

to enlighten potential new customers who were not aware of the ferry and to entice them to include the Chi-Cheemaun as part of their vacation experience. Concurrently, 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 supportive creative content for the ferry's new image which will be unveiled and in market for the 2015 sailing season.

MS CHI-CHEEMAUN VEHICLE AND PASSENGER TRAFFIC 2012 - 2014

	May	June	July	Aug	Sept	Oct	Total	% change/ prior year
VEHICLES								
2014	5345	10053	17735	20054	9906	4606	67699	1.98%
2013	3378	9432	17907	20628	9933	5107	66385	-6.44%
2012	6360	9627	19424	21218	10673	3649	70951	-0.12%
PASSENGERS								
2014	10906	22272	46321	56613	21689	9792	167593	0.82%
2013	7479	21272	47228	57606	21315	11324	166224	-6.79%
2012	13373	22208	51615	58927	23930	8286	178339	-1.34%

implemented by the OSTC over the previous two years.

This accomplishment is all the more noteworthy because at the commencement of the operating season OSTC was faced with a delay and associated uncertainties over the start date for the Chi-Cheemaun's ferry service due to late ice break-up. This forced the OSTC to cancel all pre-season charters and cruises for the ship including the annual spring positioning cruise from Owen Sound to Tobermory. Ferry service was delayed by 1.5 days

MARKETING: A variety of recommendations from the comprehensive 2012/13 MS Chi-Cheemaun Market Feasibility Study were introduced into the Chi-Cheemaun operations during the 2014 season, adding to those implemented in 2013 with cumulative positive results. The primary focus of marketing initiatives was to reach those individuals who would most likely take the ferry if they were more informed about its existence and the on-board experiences available. With greater reach, OSTC was able

BUSINESS DEVELOPMENT:

Over the 2014 operating season, OSTC developed and implemented on-board and shore-side passenger entertainment and an upgraded gift shop selection. As well, educational and enrichment opportunities focused on the unique social and cultural features of the area of operation with special emphasis on Manitoulin Island. The goal of these initiatives was to encourage customers to become repeat visitors through the enjoyable on-board experience. Early 2014 evidence suggests that this approach is succeeding.

In late 2014/15 OSTC began the search for a new staff member to develop and guide implementation of the recommendations related to new marketing material and partnerships as outlined in the feasibility study. The Manager of Customer & Media Relation will be responsible for overseeing all aspects of the customer experience including

OPERATIONAL OVERVIEW

KEY ACCOMPLISHMENTS

coordination of special events and entertainment, phasing in updated merchandising directions, managing the social media hubs and represent the company on community working groups, attendance at travel trade shows and tourism promotion events.

MAJOR CAPITAL: Capital spending in 2014/15 totaled \$475,624 which included complete renovation of five public washrooms on the Chi-Cheemaun ferry, the purchase of new computer servers for OSTC administration and an assortment of smaller capital improvement projects at the terminals and on the ship that contributed to increased efficiency and, importantly, a higher level of safety and security.

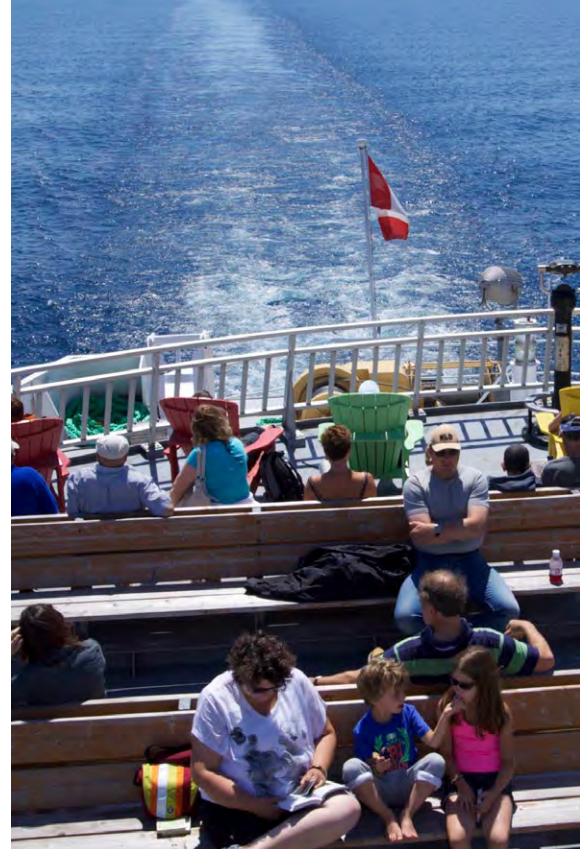
MACHINERY: The Chi-Cheemaun experienced service interruptions or lost trips resulting from mechanical breakdowns during the 2014 operating season.

SAFETY & ENVIRONMENT:

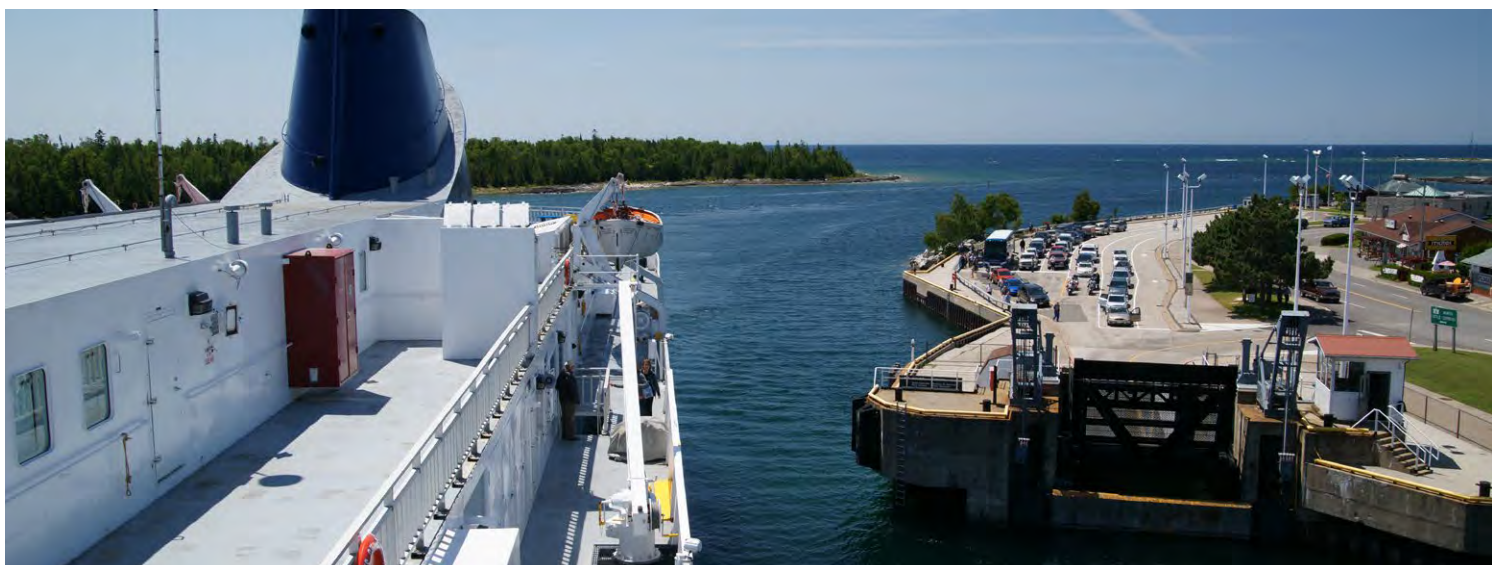
OSTC has maintained voluntary compliance with International Safety Management (ISM) Code, originally certified by Lloyd's Classification Society in 1997. The Safety Management System provides policies and procedures for all aspects of the operation with the purpose of reducing safety and environmental 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% as measured in the third quarter of 2014/15. No Safety or Environmental non-compliance incidents occurred.

All four vessels for which the company has operational responsibility were enrolled in



the Green Marine certification program in 2014. 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 level 2 on its 1-to-5 level scale. Level 1 constitutes the monitoring of regulations,





After six years of decline in ridership, 2014/15 was a turnaround year for the Chi-Cheemaun passenger and vehicle ferry business.

while Level 5 indicates leadership and excellence. Given the age of some of OSTC's vessels, advancement beyond Level 3 is only possible through major structural changes such as converting to zero emission fuel products. This is not possible for Chi-Cheemaun, Niska I or the northerly regions in which they operate. OSTC continues to work for 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.

OSTC maintains compliance with both the Provincial Regulations and the Federal Occupational Safety and Health Regulations as the MOSH regulations are more applicable to the marine working environment.

There were no changes to the Occupational Health and Safety Regulations during the 2014/2015 period that affected OSTC. The company maintained normally scheduled OSH training and inspections for employees and facilities. Employee accident rates are well within industry standards. With just one employee injury resulting in a Lost Time occurrence. OSTC's health and safety strategies remain on target.

CUSTOMER SATISFACTION:

OSTC decided not to conduct a Customer Survey in 2014/15 because of the state of flux associated with the many fundamental changes initiated over the 2014 season. Over the year, a total of 35 customer complaints were received, out of 167,593 passenger trips. Twenty

five of these were resolved to the customers' satisfaction within five days. The remaining 10 were more complex matters and took on average of a month to investigate and resolve.

MOOSONEE/MOOSE FACTORY ISLAND FERRY:

The MV Niska I provides vehicle, freight and passenger transportation services between Moosonee and Factory Island on the Moose River at the mouth of James Bay. After several years of operating this service as the contracted agent of the Ontario Northland Transportation Commission, OSTC took ownership of the ship in November 2013. As such, 2014 was the first year in which OSTC operated the Moose River ferry service under the OSTC corporate umbrella. In so doing, OSTC renewed our successful working arrangement with the Moose Cree First Nation, which provides Niska I crews and daily vessel operation. In this era of reconciliation this arrangement represents a model of respectful, effective collaboration with our Indigenous partners.

The Niska I is the only transportation option for people to move vehicles to and from Moose Factory Island during open water season. Over the 2014 operating season the vessel carried 2,226 passengers and 2,828 vehicles over 1,167 trips. In August 2014 the Niska I experienced a separated rudder arm which took it out of service for about one week to undergo repairs.

100%

The ISM audit compliance rate was 100% as measured in the third quarter of 2014/15. No Safety or Environmental non-compliance incidents occurred.



CHI-CHEEMAUN REVENUES:

The OSTC's 2014/15 budget assumed a return to 2011/12 vehicle and passenger traffic, 6.6% more than the actual traffic carried in 2012/13 and 4.8% more than the actual 2014/15 year end traffic. This was an ambitious projection given the current economic climate, and actual resulted in the service falling 3.9% (\$367,608) short of the budgeted ferry generated revenues.

The Chi-Cheemaun 2014/15 budget also includes \$255,000 in income from capital management fees related to the MTO new vessel build for services provided by the OSTC. A combination of delays by MTO and the possibility that the new Pelee Island Ferry Service vessel could be built offshore means that the OSTC's

involvement was significantly reduced from MTO's original proposal and this revenue was not earned.

The combined impact of the loss of \$367,608 in Chi-Cheemaun Ferry revenue and the \$255,000 in ferry construction management from MTO resulted in an 8.25% shortfall, and \$622,608 total loss in forecasted revenue.

An additional \$485,000 over the \$2,000,000 MNDM subsidy was provided to the Chi-Cheemaun Ferry Service from the Ministry to compensate for the net loss in revenue and help cover the cost of fixed and variable operating expenses.

CHI-CHEEMAUN EXPENSES:

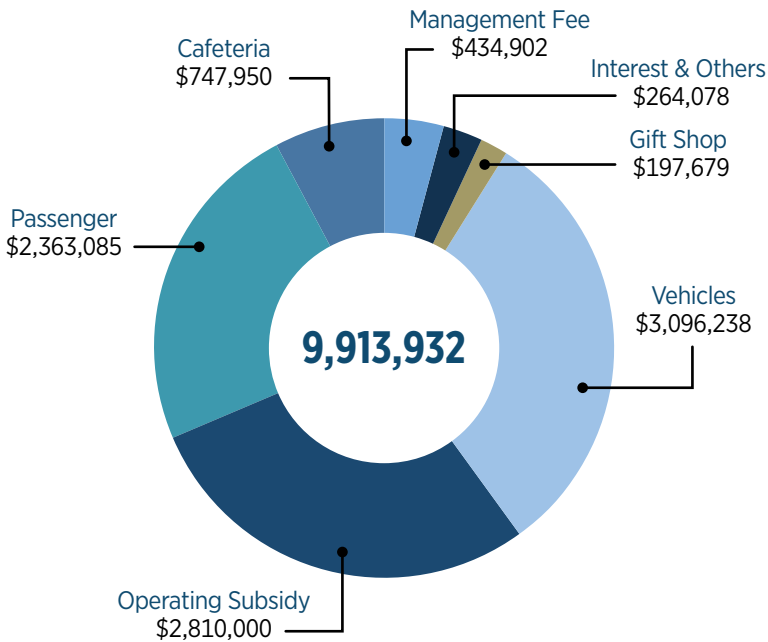
The OSTC carefully monitored expenses in response to the

lower traffic levels in areas which could be controlled such as; salary & wages, benefits, tools & operating and administrative costs.

The Company was able to effectively reduce food service personnel on the Chi-Cheemaun as much as possible in accordance with the Collective Agreement while still maintaining quality customer service based on the lower passenger carriage. In addition to the concentration of food service staff, the management position of VP of Finance was not filled. These measures resulted in a 5% saving in salary & wages which yielded a \$205,812

Fuel costs, repairs & maintenance and utility costs all exceeded budget by a total of \$94,911.

2014/15 Operating Revenue



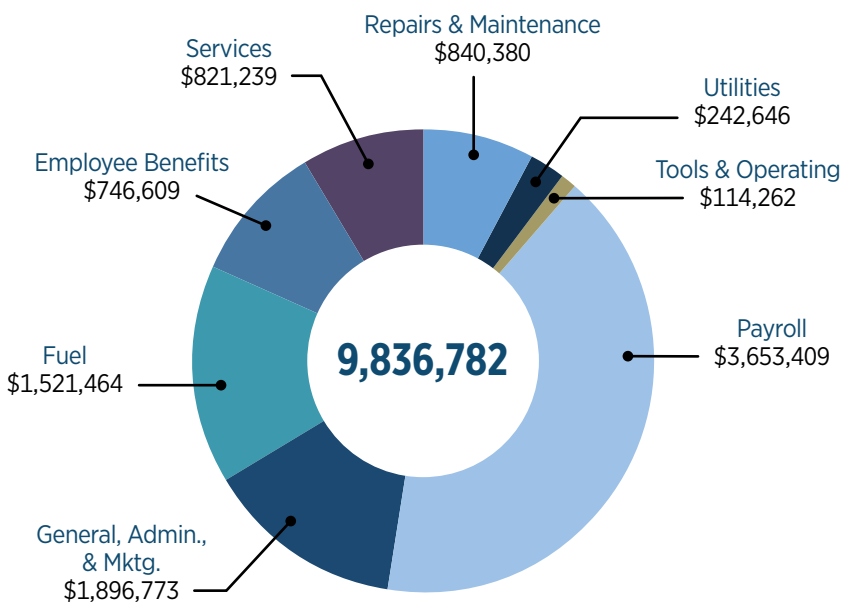
While OSTC had forecasted a reduction in operating expenses relative to budget, total measures taken were insufficient to offset the losses detailed above.

It should be noted that the total annual operating expense included \$500,000 specifically identified for marketing the ferry service, the development and implementation of a new website and a new reservation.

NISKA I REVENUES AND EXPENSES:

Revenue on the Niska I finished the year by \$13,280 above budget in spite of the loss of a week of operation in August for rudder repairs. Additional revenues were generated by operating the ferry on some weekend during the spring and fall to transport construction materials.

2014/15 Operating Expenses



Capital projects in the amount of \$119,178 were completed in 2014/15 for Niska I and included work required for the vessel's first 5 year out of water inspection, and engineering for the rehabilitation of an existing marine railway to be leased by OSTC for a permanent winter haul-out facility for Niska I. Expenses of \$102,787 were incurred in excess of budget and are attributed largely to \$60,918 in rudder repairs, higher than budgeted maintenance costs, travel costs for contractors, and additional contract fees for crews operating weekends. ■

FINANCIAL STATEMENTS

For the year ended March 31, 2015

CONTENTS

Management's Responsibility	16
Independent Auditor's Report	17

FINANCIAL STATEMENTS

Statement of Financial Position	18
Statement of Operations and Accumulated Surplus	19
Statement of Changes in Net Financial Assets	20
Statement of Cash Flows	21
Notes to Financial Statements	22

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, 2015



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, 2015 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, 2015 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
September 29, 2015

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED
STATEMENT OF FINANCIAL POSITION

MARCH 31	2015		2014
Financial Assets			
Cash and cash equivalents (Note 2)	\$	1,218,637	\$ 1,360,643
Accounts receivable (Note 3)		976,140	449,076
Inventory held for resale		30,751	41,445
		2,225,528	1,851,164
Liabilities			
Accounts payable and accrued liabilities		603,282	398,521
Employee future benefit obligations (Note 6)		985,012	901,823
Workers' safety insurance obligations (Note 7)		213,058	176,034
		1,801,352	1,476,378
Net financial assets		424,176	374,786
Contingencies (Note 11)			
Non-financial assets			
Inventory for own use		20,381	32,510
Prepaid expenses		625	2,083
Tangible capital assets (Note 8)		17,040,490	17,291,502
		17,061,496	17,326,095
Accumulated surplus (Note 9)	\$	\$17,485,672	\$ 17,700,881

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	2015	2015	2014
	Budget (Note 10)	Actual	Actual
Revenues			
Ministry of Northern Development and Mines subsidy (Note 13(a))	\$ 5,360,000	\$ 3,483,668	\$ 2,607,794
Vehicles	3,222,675	3,096,238	3,032,046
Passenger revenue	2,500,500	2,363,085	2,348,840
Cafeteria	755,975	747,950	728,498
Pelee Island ferry service management fee (Note 13 (b))	716,000	434,902	462,926
Interest, freight and other	325,450	264,078	368,627
Tuck and terminal gift shop revenue	193,200	197,679	192,956
Contributed capital asset	–	–	4,102,601
	13,073,800	10,587,600	13,844,288
Expenses			
Salaries and wages	3,855,000	3,653,409	3,721,534
General and administrative expenses	1,753,750	1,896,773	1,252,422
Fuel	1,453,000	1,521,464	1,387,188
Employee benefits	1,050,050	866,822	869,877
Amortization	–	845,814	716,760
Repairs and maintenance	705,384	840,380	705,155
Services	818,616	821,239	777,065
Utilities	216,000	242,646	242,559
Tools and operating supplies	122,000	114,262	101,111
	9,973,800	10,802,809	9,773,671
Annual surplus (deficit) (Note 10)	3,100,000	(215,209)	4,070,617
Accumulated surplus, beginning of the year	17,700,881	17,700,881	13,630,264
Accumulated surplus, end of the year	\$ 20,800,881	\$ 17,485,672	\$ 17,700,881

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

STATEMENT OF CHANGES IN NET FINANCIAL ASSETS

FOR THE YEAR ENDED MARCH 31	2015	2015	2014
	Budget (Note 10)	Actual	Actual
Annual surplus (deficit) (Page 19)	\$ 3,100,000	\$ (215,209)	\$ 4,070,617
Acquisition of tangible capital assets	(3,095,000)	(594,803)	(4,637,286)
Amortization of tangible capital assets	-	845,815	716,760
	(3,095,000)	251,012	(3,920,526)
	5,000	35,803	150,091
Change in inventories for own use	-	12,129	(13,170)
Change in prepaid expense	-	1,458	(2,083)
Increase in net financial assets	5,000	49,390	134,838
Net financial assets, beginning of the year	374,786	374,786	239,948
Net financial assets, end of the year	\$ 379,786	\$ 424,176	\$ 374,786

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

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31	2015	2014
Cash provided by (used in)		
Operating activities		
Annual surplus (deficit)	\$ (215,209)	\$ 4,070,617
Items not affecting cash		
Amortization	845,815	716,760
Contributed capital asset	-	(4,102,601)
Change in workers' safety insurance obligations (Note 7)	37,024	33,080
Change in employee future benefit obligations (Note 6)	83,189	18,870
	750,819	736,726
Changes in non-cash working capital balances		
Accounts receivable	(527,064)	1,748,772
Inventory held for resale	10,694	(110)
Inventory for own use	12,129	(13,170)
Prepaid expenses	1,458	(2,083)
Accounts payable and accrued liabilities	204,761	(560,806)
	452,797	1,909,329
Investing activities		
Purchase of capital assets	(594,803)	(534,685)
Financing activities		
Decrease in bank indebtedness	-	(55,196)
Change in cash and cash equivalents during the year	(142,006)	1,319,448
Cash and cash equivalents, beginning of the year	1,360,643	41,195
Cash and cash equivalents, end of the year	\$ 1,218,637	\$ 1,360,643

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

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED
NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

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

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

Management Responsibility

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

Basis of Accounting

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

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, 2015

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

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.

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.

MARCH 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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 is recorded in the period in which the employees render service 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, 2015

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.

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED
NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2015

2. CASH AND CASH EQUIVALENTS

	2015	2014
Cash on hand	\$ 5,950	\$ 17,150
Bank	1,211,190	1,342,119
In transit	1,497	1,374
	\$ 1,218,637	\$ 1,360,643

On March 31, 2015, 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. Included in cash is \$552 US, \$655 denominated in Canadian currency.

3. ACCOUNTS RECEIVABLE

	2015	2014
Ministry of Northern Development and Mines	\$ 315,614	\$ 74,964
Ministry of Transportation	406,975	265,010
Other	253,551	109,102
	\$ 976,140	\$ 449,076

There are no impairment allowances relating to accounts receivable.

4. OPERATING LOAN - CREDIT FACILITY

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

5. 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 2015 by the Owen Sound Transportation Company Limited was \$47,843 (2014 - \$44,064). 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, 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.

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED
NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2015

6. EMPLOYEE FUTURE 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:

	2015	2014
Current period benefit cost	\$ 1,086,882	\$ 1,063,626
Unamortized actuarial loss	(216,557)	(243,627)
Non-Pension Post-Retirement Benefits	870,325	819,999
Accrued Pension Benefit	114,687	81,824
	\$ 985,012	\$ 901,823

Non-Pension Benefits

Payments for these benefits totalled \$116,546 (2014 - \$128,127) 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.

6. RETIREMENT AND POST-EMPLOYMENT BENEFIT - (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% (2014 - 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.

	2015	2014
Current period benefit cost	\$ 19,542	\$ 18,378
Amortization of actuarial loss	27,070	27,070
Retirement benefit expense	46,612	45,448
Interest costs	44,747	43,721
Benefits paid	(41,033)	(36,022)
Total expense for the year	\$ 50,326	\$ 53,147

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED
NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2015

Accrued Pension Benefit (continued)

Employees hired after April 1, 2002 were not eligible to join the ONTC pension plan. OSTC has 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.”

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, 2014.

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% (2014 - 5.75%).

	2015	2014
Current period benefit cost	\$ 32,863	\$ 34,798
Benefits paid	-	(69,075)
Total expense for the year	\$ 32,863	\$ (34,277)

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED
NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2015

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.

	2015	2014
Accrued benefit obligation	\$ 487,769	\$ 489,989
Unamortized actuarial loss	(274,711)	(313,955)
WSIB future benefit	\$ 213,058	\$ 176,034

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.

	2015
Amortization of losses	\$ 39,245
Current period benefit cost	36,455
Interest costs	19,172
Projected benefit payments	\$ (57,848)
Total expense for the year	\$ 37,024

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED
NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2015

8. TANGIBLE CAPITAL ASSETS

At March 31, 2015, there were \$127,930 (2014 - \$51,020) Chi-Cheemaun Ferry capital assets that were not being amortized due to installation not being complete.

In 2015, OSTC purchased \$594,802 (2014 - \$452,852) worth of tangible capital assets with capital funding. Additional capital funding of \$78,866 (2014 - \$Nil) was received for projects that did not meet the capitalization requirements and were expensed as a result. OSTC used \$Nil (2014 - \$81,834) of its own operating funds to cover additional capital costs.

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	\$ 25,507,731	\$ 4,135,453	\$ 32,028,160
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	25,891,048	4,254,632	32,622,963
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	\$ 11,715,393	\$ 4,076,571	\$ 17,040,490

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED
NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2015

8. TANGIBLE CAPITAL ASSETS (continued)

	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

9. ACCUMULATED SURPLUS

Accumulated surplus consists of the following categories:

	2015	2014
Invested in tangible capital assets	\$ 17,040,490	\$ 17,291,502
Unfunded WSIB benefits	(213,058)	(176,034)
Unfunded future employee benefits	(985,012)	(901,823)
General surplus (Note 10)	1,643,252	1,487,236
Accumulated surplus	\$ 17,485,672	\$ 17,700,881

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED
NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2015

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 2015 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.

	2015	2015	2014
	Budget	Actual	Actual
Annual surplus (deficit) (Page 19)	\$ 3,100,000	\$ (215,209)	\$ 4,070,617
Amortization	-	845,815	716,760
Change in unfunded liabilities	-	120,213	51,950
	3,100,000	750,819	4,839,327
Capital acquisitions, disposals and write-down	(3,095,000)	(594,803)	(4,637,286)
	5,000	156,016	202,041
Prior year general surplus	21,000	1,487,236	1,285,195
General surplus (Note 9)	\$ 26,000	\$ 1,643,252	\$ 1,487,236

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) 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.

c) OSTC has not reached a collective agreement with the Seafarer's International Union of Canada. This contract expired on December 31, 2013. The outcome is not determinable at the present time.

12. 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.

MARCH 31, 2015

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 \$2,810,000 (2014 - \$1,900,000). In 2015, OSTC received an additional \$Nil (2014 - \$254,942) 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 \$594,802 (2014 - \$452,852). Additional capital funding of \$78,866 (2014 - \$Nil) was received for projects that did not meet the capitalization requirements. Capital and operating payments received during the year totalled \$3,483,668 (2014 - \$2,607,794).

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 \$434,902 in management fees for the 2014 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.

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2015

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	2015 Total	2014 Total
Revenue				
Ferry services	\$ 6,384,722	\$ 20,229	\$ 6,404,952	\$ 6,302,340
MNDM subsidy	3,079,802	403,866	3,483,668	2,607,794
Interest, freight and other	107,027	157,051	264,078	368,627
Pelee Island ferry service management fee	434,902	–	434,902	462,926
Contributed capital asset	–	–	–	4,102,601
	10,006,453	581,146	10,587,600	13,844,288
Expenses				
Salaries and wages	3,569,428	83,980	3,653,409	3,721,534
General and administrative	1,793,473	103,300	1,896,773	1,252,422
Fuel	1,486,054	35,410	1,521,464	1,387,188
Employee benefits	866,822	–	866,822	869,877
Amortization	811,079	34,735	845,814	716,760
Services	604,989	216,250	821,239	777,065
Repairs and maintenance	672,273	168,107	840,380	705,155
Utilities	239,969	2,677	242,646	242,559
Tools and operating supplies	112,889	1,373	114,262	101,111
	10,156,976	645,832	10,802,809	9,773,671
Annual surplus (deficit)	\$ (150,523)	\$ (64,686)	\$ (215,209)	\$ 4,070,617

MARCH 31, 2015

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 (2014 - \$100,000).

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

Accounts receivable are primarily due from CRA, MNM 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, 2015 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.

THE OWEN SOUND TRANSPORTATION COMPANY LIMITED

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2015

16. FINANCIAL INSTRUMENT CLASSIFICATION

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

	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

	2014		
	Fair Value	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.

OWEN SOUND
TRANSPORTATION COMPANY
ANNUAL REPORT

2014/2015

