



Owen Sound Transportation Company Limited  
2018/19 Annual Report



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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 Energy, Northern Development and Mines.

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## 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 the 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.

## About the OSTC

The Owen Sound Transportation Company Limited (OSTC) was established under the *Ontario Business Corporation Act* on March 10, 1921 as a private sector business which, beginning in the war years, had been 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 2002 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 Province of Ontario with its administration office in Owen Sound, Ontario, under the direction of the Ministry of Energy, Northern Development and Mines. OSTC is an integral part of Ontario's tourism and transportation system. During 2018/19, the OSTC was responsible for the operation of five ships, seven terminal and dock facilities servicing four ferry routes, as well as one seasonal air service in Ontario.

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

OSTC has been under contract to the Ministry of Transportation since 1992 for the management and operation of the Pelee Island Transportation Service. Three vessels, MV Pelee Islander II, MV Pelee Islander, and MV Jiimaan (back-up vessel) provide ferry service on Lake Erie between the Ontario ports of Kingsville and Leamington to Pelee Island from April through December, and a summer-only service between Pelee Island and Sandusky, Ohio. OSTC contracts a licensed air operator to provide winter air service between Pelee Island and Windsor, Ontario from late December through the end of March when Lake Erie is iced over.

During the peak operating season OSTC's workforce consists of 37 full-time and seasonal management employees, and 166 unionized seasonal employees for the Manitoulin Island and Pelee Island ferry services. Unlicensed and non-management employees are members of the Seafarers International Union of Canada (SIU) under Collective Agreements that expired on December 31, 2018. Pelee Island Transportation SIU members applied for decertification in December 2018; a decertification determination was pending at year-end. Collective bargaining for OSTC agreements began in winter 2019; no settlement had been reached by year-end.

Attraction and retention of competent and qualified personnel for ship operations and shore positions continued to be a challenge for OSTC through 2018/19 as the company is in competition with private shipping companies for marine personnel in a prolonged period of a world-wide personnel shortage. Without the ability to improve salaries and wages, OSTC will continue to lose personnel to private shipping companies who are offering lucrative wage and benefit packages as well as hiring and retention bonuses for current and prospective employees, including those they have attracted away from OSTC. OSTC is working with the province to resolve the issue as the fragility of OSTC's

current workforce is such that the company could face unplanned disruptions to ferry schedules due to crew shortages.

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.

#### Ferry vessels and Routes

| Ship              | Size | Capacity         | Route                              | Season     | Crossing Time |
|-------------------|------|------------------|------------------------------------|------------|---------------|
| Chi-Cheemaun      | 106m | 638 psgr/140 veh | Tobermory-South Baymouth           | May -Oct   | 120min        |
| Niska 1           | 27m  | 47 psgr/6 veh    | Moosonee-Moose Factory Island      | June - Oct | 20min         |
| Pelee Islander II | 62m  | 388 psgr/35 veh  | Kingsville/Leamington-Pelee Island | May - Nov  | 90min         |
| Pelee Islander    | 42m  | 196 psgr/10 veh  | Kingsville/Leamington-Pelee Island | Apr - Dec  | 90min         |
| Pelee Islander    | 42m  | 196 psgr/10 veh  | Pelee Island - Sandusky, OH        | May - Sept | 90min         |
| Jiimaan           | 61m  | 385 psgr/35 veh  | Kingsville/Leamington-Pelee Island | May - Nov  | 90min         |

## Corporate Governance

The Ontario Minister of Energy, 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 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 on the best interests of the Corporation and in accordance with the management principles and guidelines of the Government of Ontario. The principles include ethical behaviour, accountability, and excellence in management, wise use of public funds, high-quality service to the public and fairness in the marketplace.

The Board of Directors sets the standards of conduct for the Corporation and ensures the safety of its operations, supervising the conduct of the business through the President and CEO, to whom it delegates the responsibility of leadership and management of the Corporation. OSTC's Board of Directors receive no remuneration. Board Appointees are eligible to receive expenses.

## Board of Directors

Mr. Barney Hopkins  
Chair, Tobermory  
(01 April 2002 – 31 May 2019)

Mr. Bill Caulfeild-Browne  
Director, Tobermory  
(15 June 2007 – 30 June 2019)

Mr. John Greenway  
Vice-Chair, South Baymouth  
(01 April 2007 – 31 May 2020)

Mr. Andy Underwood  
Director, Owen Sound  
(09 March 2017 – 08 March 2021)

Mr. Martin Garfield Brown  
Director, South Baymouth  
(01 July 2005 – 30 June 2019)

Ms. Faye Johnson  
Director, Sault Ste. Marie  
(09 March 2018 – 08 March 2021)

## Executive Officers

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

S. Shaw  
Vice-President Operations

J. Ostrander  
Vice-President Engineering

## Operational Overview – Key Accomplishments & Operational Performance

OSTC establishes short-term and long-term operational targets in its multi-year Business Plans and makes annual adjustments to those targets based on actual experience. Revenue targets are based on ferry ridership levels derived from the Business Plan growth model. Expense targets are based on the day-to-day cost required to support carriage of passengers and vehicles (largely labour, fuel and non-renewable consumables), as well as mandatory machinery and equipment overhauls and surveys, the timing of which are based on operating hours or years of service. Expense targets also provide for proactive preventative maintenance as the ferries Chi-Cheemaun and Niska 1 are the sole providers of ferry service in their areas of operation. OSTC does not have access to back-up ferries should either Chi-Cheemaun or Niska 1 be taken out of service for a mechanical repair during their operating seasons. As such, the vessels have been equipped with redundant propulsion and mechanical equipment to ensure the vessels can operate through mechanical repairs as much as is reasonably possible.

OSTC's 2018/19 Business Plan established annual short-term traffic growth targets of 2% per year for the Manitoulin Island ferry service for the 2018, 2019, 2020 and 2021 operating seasons. Given the traffic increases experienced since 2014, 2% growth per year for 4 years would be required to reach the long-term target of 2005 traffic levels.

Traffic targets for Niska 1 are static with little variation from year to year as this is not a tourism ferry but provides essential passenger, vehicle and freight transportation for the community on Moose Factory Island.

If either service fails to meet their traffic targets, OSTC adjusts expense allocations to compensate wherever practicable without impacting service levels, safety or customer service. All possible steps are taken to preserve the integrity of the overriding target of staying within the established annual budget envelope.

In the discussion to follow, cause and effect, and variance from targets are detailed as are the operation's responses and measures taken to mitigate the overall impact on services and the annual financial targets.

### Tobermory/Manitoulin Island - Chi-Cheemaun Ferry Traffic:

Ferry service began on Friday, May 4, 2018 following completion of one dinner cruise charter from Owen Sound on Saturday, April 28, and the Annual Spring Repositioning Cruise on Thursday, May 3. Ferry service ended as scheduled on Sunday, October 14, 2018.

After four consecutive years of traffic growth, the 2018 ferry service experienced a 2.03% decrease in vehicles (79,144 vs. 80,786) and a 3.30% decrease in passenger traffic (199,896 vs. 206,718) as compared to 2017 results. At the end of the 2018 operating season, the service is a further 2% away from the long-term traffic target which now requires a 10% overall traffic increase to achieve.

### MS Chi-Cheemaun Vehicle and Passenger Traffic 2013 - 2018 with long range target (2005)

|                      |               |               |               |               |               |               |                |                | annual |
|----------------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|--------|
| Vehicles             | May           | June          | July          | Aug           | Sept          | Oct           | Total          | % change       |        |
| 2018                 | 6,823         | 12,236        | 21,328        | 22,708        | 11,715        | 4,334         | 79,144         | -2.03%         |        |
| 2017                 | 6,432         | 11,558        | 21,455        | 22,802        | 13,209        | 5,330         | 80,786         | 2.01%          |        |
| 2016                 | 6,317         | 10,953        | 21,791        | 21,572        | 13,323        | 5,235         | 79,191         | 7.63%          |        |
| 2015                 | 5,915         | 9,771         | 19,601        | 20,867        | 12,097        | 5,327         | 73,578         | 8.68%          |        |
| 2014                 | 5,345         | 10,053        | 17,735        | 20,054        | 9,906         | 4,606         | 67,699         | 1.98%          |        |
| 2013                 | 3,378         | 9,432         | 17,907        | 20,628        | 9,933         | 5,107         | 66,385         | -6.44%         |        |
| <i>Target - 2005</i> | <i>6,612</i>  | <i>11,562</i> | <i>25,494</i> | <i>25,153</i> | <i>13,299</i> | <i>5,557</i>  | <i>87,677</i>  | <i>-10.00%</i> |        |
| Passengers           | May           | June          | July          | Aug           | Sept          | Oct           | Total          | % change       | annual |
| 2018                 | 13,931        | 26,953        | 58,119        | 64,974        | 26,554        | 9,365         | 199,896        | -3.30%         |        |
| 2017                 | 13,908        | 24,847        | 58,863        | 65,984        | 30,575        | 12,541        | 206,718        | 1.95%          |        |
| 2016                 | 13,529        | 24,614        | 59,385        | 61,916        | 31,645        | 11,674        | 202,763        | 9.18%          |        |
| 2015                 | 12,246        | 21,750        | 52,932        | 58,947        | 27,961        | 11,876        | 185,712        | 10.81%         |        |
| 2014                 | 10,906        | 22,272        | 46,321        | 56,613        | 21,689        | 9,792         | 167,593        | 0.82%          |        |
| 2013                 | 7,479         | 21,272        | 47,228        | 57,606        | 21,315        | 1,324         | 166,224        | -6.79%         |        |
| <i>Target - 2005</i> | <i>14,881</i> | <i>27,159</i> | <i>73,089</i> | <i>71,958</i> | <i>31,496</i> | <i>13,255</i> | <i>231,838</i> | <i>-13.78%</i> |        |

Early season ferry traffic tracked with the 2018/19 Business Plan objective of a 2% increase until July 12, at which time one of the two internal retractable ramps failed and was removed from service reducing available vehicle capacity for the second half of the peak summer season and the first two weeks of fall. Direct traffic losses attributed to the ramp failure are estimated at 514 vehicles and 1,285 passengers for the period it was unavailable. Service was again disrupted on Labour Day when damage to the bow vehicle loading ramp forced the cancellation of three out of four scheduled round trips impacting 506 vehicles and 1,304 passengers. And finally, unsafe operating conditions due to high winds caused the cancellation of three round trips in the fall sailing season, impacting approximately 542 vehicles and 1,222 passengers. Mechanical and weather-related disruptions to ferry services made up most of the lost traffic and made attraction of new business difficult given the reduction in the ferry's physical vehicle capacity during the peak summer sailing season.

OSTC's ideal vehicle deck usage rates range from 50% to 70% in the shoulder seasons, and 80% in the peak summer season. These vehicle deck occupancy rates consider the lightly used or "dead-head" departures required to get the ferry back to its home port for the first morning departure time.

Future consideration will be given to the total available vehicle deck space in calculating load factors and occupancy rates as the two internal retractable ramps are too narrow for most cars currently on the road and in production.

**MS Chi-Cheemaun Load Factor by Month and Annual Average  
(percentage of total vehicle deck space used)**

|                      | May           | June          | July          | Aug           | Sept          | Oct           | Total         |
|----------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| 2018                 | 47.20%        | 50.45%        | 66.01%        | 71.17%        | 71.37%        | 64.40%        | 62.67%        |
| 2017                 | 48.11%        | 50.84%        | 66.19%        | 71.71%        | 73.78%        | 68.89%        | 63.34%        |
| 2016                 | 46.75%        | 47.05%        | 66.69%        | 68.04%        | 71.80%        | 62.81%        | 61.71%        |
| 2015                 | 42.13%        | 45.47%        | 60.53%        | 64.78%        | 63.07%        | 58.06%        | 57.15%        |
| 2014                 | 36.16%        | 46.95%        | 54.94%        | 62.84%        | 59.11%        | 35.00%        | 51.65%        |
| <i>Target - 2005</i> | <i>49.00%</i> | <i>60.00%</i> | <i>80.00%</i> | <i>79.00%</i> | <i>72.00%</i> | <i>66.00%</i> | <i>68.00%</i> |

### Tobermory/Manitoulin Island - Machinery:

Following the 2017 operating season during which Chi-Cheemaun had experienced high temperature issues on one of the four main engines (two of which provide internal mechanical redundancy), all four engines were investigated for a potential latent defect. During the work to identify and change out the parts that showed evidence of a recurrent defect, one of the engines was not able to be completed due to time constraints; further work would have challenged the opening of the 2018 operating season therefore the engine was taken out of service and Chi-Cheemaun relied entirely on the second engine to provide propulsion to the shaft on that side of the vessel. No trips were delayed or lost because of not having internal mechanical redundancy on one of the two shafts. The work on the 4<sup>th</sup> engine was completed over winter 2018/19 so that the vessel would have full propulsion options for the 2019 operating season.

During the 2018 sailing season, the Chi-Cheemaun lost four round trips due to mechanical failures, one for the internal retractable ramp failure investigation, and three for damage to the loading ramp due to an incident involving the sewage pump-out door.

Following the close of the scheduled operating season, Chi-Cheemaun was taken to a dry-dock facility to undergo a propeller repair. Periodic underwater surveillance of the vessel had revealed a hairline crack in one of the vessel's propeller blades early in the operating season. Measures were taken to stop the progress of the crack and an increased monitoring program was put in place to ensure the vessel would be able to complete the operating season without a mid-season interruption to repair the blade.

### Tobermory/Manitoulin Island - Safety & Environment:

OSTC has maintained voluntary International Safety Management Code (ISM) 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 behaviors. Through regular internal and external audits, the system maintains 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 2018/19 continued to focus on identification, mitigation and reporting of near misses, and the review and improvement of comprehensive risk management strategies, policies and procedures.

OSTC achieved a 100% compliance rate for ISM external audits in 2018/19. There were 7 employee injury reports with no lost time.



OSTC enrolled in the Green Marine environmental certification program in 2014 for the four vessels under the company's operational responsibility: MS Chi-Cheemaun, MV Jiimaan, MV Pelee Islander, and MV Niska 1. Green Marine participants are committed to continuous reduction of the company's 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. Given the age of the vessels, advancement beyond Level 3 is only possible through major structural changes such as converting to zero emission fuel products. Fuel conversion is not feasible for Chi-Cheemaun or Niska I, nor is LNG available in their regions of operation. A higher rating is expected for MV Pelee Islander 2, the newest addition to the Pelee Island Transportation fleet owned by the Ministry of Transportation. OSTC continues to work on environmental improvements in all areas of the operation that the company has the opportunity and ability to influence.

### **Tobermory/Manitoulin Island - 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. The Province of Ontario has not entered into an agreement with the Government of Canada allowing the federal authority to assume responsibility for enforcement and inspection of Occupational Health and Safety on ships owned by the Province of Ontario. OSTC does however, maintain compliance with both 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 2018/19 period that affected OSTC, or which had not already been incorporated into OSTC's Policies and Procedures as matter of "best practice."

### **Tobermory/Manitoulin Island - Marketing:**

OSTC's contract with Cleansheet Communication expired following the 2018 operating season. OSTC began working with the Advertising Review Board (ARB) in fall 2018 to acquire a new continuous communications service contract to cover the next two years. The role of the ARB is to ensure ministries and government agencies acquire advertising and communication services in a manner that is transparent, fair and accessible to qualified suppliers.

Two agencies were shortlisted from the agencies of record list and invited by the ARB along with the incumbent agency, Cleansheet Communications, to competitively present to a panel. Naked Creative was awarded the contract.

Naked Creative understands that OSTC has experienced improvements in ridership, increased event ticket sales, website traffic, increased gift shop merchandise sales and general brand awareness with the "Travel in Good Spirits" campaign. Naked Creative's emphasis will be to maintain and enhance the existing brand recognition. Naked Creative acknowledges that Chi-Cheemaun is a tourism dependent operation, therefore this brand recognition and marketing campaign play vital roles in attracting and maintaining the customer base. Naked Creative will continue to work the OSTC in the development of strategic multi-channel communications. The agency will also provide maintenance to the current creative templates that have been used as event posters, web banners & out-of-home advertising, and will work with OSTC in developing and expanding on-board experience offerings.

### **Tobermory/Manitoulin Island - Customer Satisfaction:**

The OSTC conducts an ongoing on-line customer satisfaction survey inviting customers via social media, ticket stubs, and the OSTC website to complete the survey and offer their ideas and opinions on how OSTC can improve the ferry service. The agency received 130 completed surveys in 2018. Those respondents registered a 78% overall satisfaction level. Social platforms reviews were also recorded during 2018. Trip Advisor posted the Chi-Cheemaun with a 4.5

out of 5 ranking with 569 reviews, Facebook had a total of 167 reviews with OSTC posting an average of 4.7 stars out of 5 for the ferry service. Even when combining the reviews from the multiple platforms, the total of 866 customer reviews remains statistically insignificant for 2018's total passenger ridership.

### Tobermory/Manitoulin Island - Business Development:

Cultural and inclusive experience programming on the ship has been well received and appreciated by passengers as it enhances their travel experience and makes selection of the ferry as part of their vacation route more attractive. In 2018 OSTC sought out additional opportunities and partnerships to enhance the Cultural & Traditional Interpretive Program, the Stargazing Program, "A Month of Sunday" Event Series, and Parks Canada Interpretive Programming:

- The Cultural & Traditional Interpretive Program was hosted by Wikwemikong Tourism. Every Wednesday during the 1:30pm sailing & the 3:40pm sailing, one of three different cultural programs was presented in the Aft Lounge for ferry passengers: Drum & Song, Unceded Journey, and The Seven Grandfathers – Painting Experience.
- Parks Canada's onboard interpretive program continued to be a long-standing favourite activity for Chi-Cheemaun passengers through 2018. Programming in earlier years educated passengers on the diverse ecological anomalies of the Bruce Peninsula National Park. The 2018 program focused exclusively on familiarizing ferry passengers with the underwater wonders of Fathom Five National Marine Park, the first of its kind in Canada. OSTC and Parks Canada collaborated to produce and install floor to ceiling murals depicting the underwater marine park environment on the walls in the hallway leading to the aft lounge.
- Chi-Cheemaun's Stargazers' Delight Tour was condensed from a six night per week offering in the month of August to one weekend during the peak of the Perseid Meteor Shower. Although the program date schedule was reduced from what was offered in 2015, 2016 and 2017, the caliber of the program was significantly heightened after the development of a partnership with the Royal Astronomical Society of Canada.
- OSTC's 2017 Celebrate Ontario 150 "A Month of Sundays" Festival, provided during the month of July, received such strong positive feedback from customers that it was developed into an annual summer event for the ferry. The 2018 "Month of Sundays" featured a collaboration of renowned Canadian musicians and Canadian authors designed to entertain and engage with passengers on the Chi-Cheemaun. The program did not receive external grant funding in 2018 which resulted in a slight reduction from a planned four-weekend festival schedule to three weekends, all supported exclusively by OSTC.

Chi-Cheemaun's popular custom merchandise and apparel line was expanded in 2018 to include new retail items exclusive to the ship. Recognizing that many customers value items that tell a story, OSTC sourced wholesalers whose items are primarily Canadian made and items directly from Manitoulin Island and Grey and Bruce Counties. A partnership with a new roastery, Tobermory Coffee Company, advanced during 2018, will see the "Chi-Cheemaun Traveler's Blend" sold in the *Boatique* and offered as house brew in the Fathom Five Lounge, and during Sunset Dinner Cruises in coming years beginning in 2019.

In response to a need for tourist information support onboard the vessel while balancing the crewing and safety needs of the vessel operation, OSTC has included provision of tourism information as an additional onboard service provided by OSTC employees. OSTC annually employs two summer students as Onboard Tourist Information Agents. These positions are partially funded by the Wikwemikong Unceded Indian Reserve Aboriginal Skills and Employment Training Strategy, Wii-ni n'guch-tood LMS.

Chi-Cheemaun was used three times for docu-series filming in 2018:

- “Vacations of the Brave” on Amazon Prime, an 8-part documentary series where unsung US Heros are brought to Canada and given a Great Canadian Experience.
- “Ghost Ships of the Great Lakes” on Discovery Channel, episode focused on the loss and wreck of the Griffon. Episode air date May 8, 2019.
- “Disasters at Sea” Season 2 for Discovery Channel. Chi-Cheemaun was used as the set for the shipping segments for 4 of the 6 episodes in the series.

Production company interest in Chi-Cheemaun has continued to build and the ship will be used for backdrop or B-roll footage in no less than three more productions in 2019.

### **Moosonee/Moose Factory Island - Niska I Ferry Traffic and Operational Performance:**

The opening of the operating season of the Niska I on the Moose River was delayed by approximately 4 weeks due to late spring break-up and pre-season maintenance work that could not be completed during winter as there is no indoor or weather protected maintenance facility. The ferry season began on June 14 and ended on October 31, 2018. There were expected disruptions to service throughout the 2018 open water season with 17 low water delays, 9 high water delays, weather (wind) cancellations, and 1 mechanical cancellation for a steering repair.

Niska 1 completed 1038 river crossings, transporting 4165 passengers and 2736 vehicles over the 2018 operating season.

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

Niska 1 was scheduled to be removed from service earlier in the fall of 2018 to accommodate weather and temperature requirements for a complete sandblasting and re-painting of the vessel. The ship had been in service for seven years in brackish water which had taken a toll on the coated surfaces. Properly maintained coatings preserve the steel shell plating and vessel structural integrity. The work was postponed until early spring 2019 as the demand to move goods to Moose Factory Island remained strong through late fall and an interruption to service would have negatively impacted the community.

## Operational Overview – Financial Overview

### Tobermory/Manitoulin Island - Chi-Cheemaun Operating Revenues and Expenses:

OSTC tracks specific key indicators – traffic volume, income per passenger, and cost to operate per passenger over a period of years as a means of measuring progress and/or issues in the annual operating result as compared to prior years, and the health of the overall operation. For example, the operation’s key indicators show improvements in areas such as passenger on-board spending which indicates that changes to food services and onboard retail offerings made since 2015 are having the desired effect. OSTC also looks at the cost of attracting and retaining passengers as compared to the revenue each passenger brings to the service. One of the most significant indicators is the percentage of operating expenses recovered from income as this demonstrates the relatively low level of operating contribution OSTC requires from the Province to sustain operations which in 2018 was 13%.

| Key Indicators - M.S. Chi-Cheemaun                           | 2018-19    | 2017-18    | 2016-17    | 2015-16    |
|--|------------|------------|------------|------------|
| Income per passenger (ticket and on-board sales)             | \$ 38.95   | \$ 38.63   | \$ 40.03   | \$ 38.85   |
| Expense per passenger (operating only)                       | \$ 48.93   | \$ 44.23   | \$ 47.54   | \$ 49.45   |
| Percentage of operating expenses recovered from income       | 82.83%     | 83.69%     | 83.25%     | 78.56%     |
| Retail revenue per passenger                                 | \$ 7.41    | \$ 7.37    | \$ 6.98    | \$ 6.71    |
| Advertising expense per passenger                            | \$ 0.68    | \$ 0.99    | \$ 1.17    | \$ 1.40    |
| New Branding Mktg Campaign cost per passenger                | \$ 2.07    | \$ 1.86    | \$ 2.50    | \$ 2.71    |
| Fuel expense per one-way crossing (avg from total fuel cost) | \$1,352.02 | \$1,029.83 | \$1,036.00 | \$1,127.29 |
| Annual total # of Passengers carried                         | 199,896    | 206,718    | 202,763    | 185,712    |
| Utilization as %age of capacity - Passengers                 | 31.46%     | 32.66%     | 31.65%     | 29.13%     |
| Annual total # of Vehicles carried                           | 79,144     | 80,786     | 79,191     | 73,578     |
| Utilization as %age of capacity - Vehicles                   | 62.67%     | 64.05%     | 61.71%     | 57.15%     |
| Annual total # of departures                                 | 996        | 992        | 1004       | 1012       |
| Average # of vehicles per departure                          | 79.46      | 81.44      | 78.88      | 72.71      |
| Average # of passengers per vehicle per departure            | 2.53       | 2.58       | 2.56       | 2.52       |

Revenue: The OSTC 2018/19 budget assumed a 2% increase over traffic carried in 2017/18. Traffic carried in 2018 fell below budgeted expectations by 4% as the consequence of having to take one of the Chi-Cheemaun retractable vehicle ramps out of service from mid-July through mid-September, the cancellation of 3 round-trips on Labour Day Monday due to vehicle loading ramp damage, and the cancellation of three round-trips in October due to high wind conditions.

2018 season traffic results returned OSTC traffic to 2016 levels which is 9.68% below the long-term target as benchmarked by the 2005 ferry season. If traffic builds by 2% a year, it will take 2 years to recover to 2017 traffic levels which were still 8.5% below 2005.

Operating and Contract Services Revenues came in 0.0058% below budget of \$8,494,000 (before ENDM contribution), or approximately \$49,381 short of budget.

Expenses: OSTC budgeted for a year-end operating “break-even” of \$8,000 based on a total expense budget of \$10,461,500 exclusive of capital costs. Total Y/E expenses came in at \$10,397,826 which was \$63,674 lower than budget.

Significant changes in expenses – in excess of \$15,000 – when comparing budget to actual included:

| <u>Description</u>       | <u>Amount Under (Over)</u> | <u>Reason for difference</u>                   |
|--------------------------|----------------------------|--|
| Fuel (ship)              | (\$241,839)                | 21.7% over budget                              |
| Salaries/Wages/Benefits: | \$79,721                   | partial cancellation of planned wage increases |
| Repairs & Maintenance    | (\$89,907)                 | operating repairs (ramp/steering gear)         |
| Services                 | \$68,093                   | food/beverage/gift purchases lower than budget |
| Computer (Res.System)    | \$237,209                  | deferred to offset high fuel cost              |
| Oil & Lubricants         | \$26,935                   | covered in main engine work by contractor      |

OSTC's revenue projections did not suffer as would have been expected with the lower than budgeted traffic levels experienced, as the income per passenger was marginally higher than the prior year and largely made up for the shortfall. Higher than budgeted fuel costs were offset with deferred or cancelled spending within the fiscal year. Overall, despite the reduction in traffic carried as compared to the prior year, OSTC's YE financial results were kept within budget.

### Moosonee/Moose Factory Island - Niska I Operating Revenue and Expenses:

| Key Indicators - MV Niska 1                                  | 2018-19   | 2017-18   | 2016-17   | 2015-16   |
|--|-----------|-----------|-----------|-----------|
| Income per passenger (ticket sales)                          | \$ 41.11  | \$ 40.59  | \$ 37.71  | \$ 38.28  |
| Expense per passenger (operating only)                       | \$ 189.42 | \$ 129.70 | \$ 122.71 | \$ 121.08 |
| Percentage of operating expenses recovered from income       | 21.70%    | 31.29%    | 30.73%    | 31.62%    |
| Fuel expense per one-way crossing (avg from total fuel cost) | \$ 29.63  | \$ 21.88  | \$ 18.97  | \$ 21.04  |
| Annual total # of Passengers carried                         | 4165      | 5628      | 5288      | 5627      |
| Annual total # of Vehicles carried                           | 2736      | 3449      | 3169      | 3283      |
| Annual total # of departures                                 | 1038      | 1410      | 1256      | 1318      |
| Average # of vehicles per departure                          | 2.64      | 2.45      | 2.52      | 2.49      |
| Average # of passengers per vehicle per departure            | 4.01      | 3.99      | 4.21      | 4.27      |

Revenue: Niska 1 experienced a normal season with few service interruptions and operated from June 14 through October 30, 2018. Revenue was very close to budget falling short of budget by 0.01% (\$1,760) for the year.

Expense: Niska 1 operating expenses exceeded budget by 26% (\$142,298). This overage is largely attributed to higher than budgeted maintenance costs directly related to Transport Canada required Main Engine service intervals based on hours of operation. Niska 1 operated for approximately one month longer than normal in 2017 which pushed the required maintenance into 2018 instead of following the 2019 operating season as was previously scheduled and budgeted.

### Major Capital:

Tobermory/Manitoulin Island Ferry Service, and Moosonee/Moose Factory Island Ferry Service Capital projects in the amount of \$1,150,630 were completed in 2018/19 and consisted of upgrades to the OSTC Terminal Facilities (Tobermory & South Baymouth), MS Chi-Cheemaun, and MV Niska 1.

Major capital work at the Tobermory and South Baymouth ferry terminal facilities included the resurfacing of loading lots at a combined cost of \$417,000. Minor capital included upgrades to lighting for \$19,000, and dock repairs at a cost of \$16,000.

Work on the planned capital expansion of the Owen Sound Administration building did not proceed due to delays in receiving land use planning permits. OSTC owns the building but leases the property from the Grey Sauble Conservation Authority who are guardians of the land on behalf of the Niagara Escarpment Commission, who in turn are responsible to the Ontario Ministry of Natural Resources. Only \$4,000 was spent in capital funds as was required to obtain the land use surveys and approvals.

Year 4 of the 6-year interior renovation of Chi-Cheemaun saw the total renovation of the crew's dining hall, all forward passenger stairwells within the ship, and ½ of the hallways that had not been completed in the first three years of the project. Renovations included removal and replacement of fire insulated wall linings with current and Class approved products, floor and ceiling surfaces, replacement of incandescent and fluorescent lighting with LED fixtures, and replacement of furniture, fixtures and equipment in the crew dining hall. Renovation work cost \$691,000.

Other capital projects completed for Chi-Cheemaun included \$68,000 to replace electrical breakers and \$203,000 to purchase a replacement steering system scheduled to be installed in the vessel during the 2019/2020 winter maintenance period.

Capital funds for the sandblasting and recoating of Niska 1 were re-profiled into the 2019/20 fiscal year when it became clear that the work planned for fall 2018 should be deferred until spring 2019 so that the ferry could continue to provide necessary fall service to the community on Moose Factory Island.

Capital funds continue to be requested, approved and re-profiled as required for the investigation and execution of dredging of the ferry route on the Moose River with particular attention to the landing areas and the entry into the Island, locally referred to as "the gut". Fluctuating water levels has made it difficult to coordinate the required studies which must precede the public consultation process and the request for proposals. Funding continues to be re-profiled as the timeline and the work scope stabilizes.

## 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  
July 30, 2019

Appendix 1 – Audited Financial Statements for year ending March 31, 2019



**The Owen Sound Transportation  
Company Limited**  
Financial Statements  
For the year ended March 31, 2019

**The Owen Sound Transportation Company Limited**  
**Financial Statements**  
**For the year ended March 31, 2019**

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## Independent Auditor's Report

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### To the Members of The Owen Sound Transportation Company Limited

#### Opinion

We have audited the financial statements of the Owen Sound Transportation Company Limited (the OSTC), which comprise the statement of financial position as at March 31, 2019, statements of operations and accumulated surplus, changes in net assets, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the OSTC as at March 31, 2019, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

#### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the OSTC in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the OSTC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the OSTC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the OSTC's financial reporting process.



## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the OSTC's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the OSTC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the OSTC to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*BDO Canada LLP*

Chartered Professional Accountants, Licensed Public Accountants

Owen Sound, Ontario  
June 27, 2019

**The Owen Sound Transportation Company Limited**  
Statement of Financial Position

| March 31                                       | 2019                 | 2018                 |
|--|----------------------|----------------------|
| <b>Financial assets</b>                        |                      |                      |
| Cash and cash equivalents (Note 2)             | \$ 1,252,491         | \$ 2,573,093         |
| Accounts receivable (Note 3)                   | 2,684,096            | 1,462,426            |
| Inventory held for resale                      | 84,910               | 69,226               |
|  | <b>4,021,497</b>     | <b>4,104,745</b>     |
| <b>Liabilities</b>                             |                      |                      |
| Accounts payable and accrued liabilities       | 304,299              | 340,949              |
| Employee future benefit obligations (Note 6)   | 1,157,189            | 1,076,551            |
| Workers' safety insurance obligations (Note 7) | 322,286              | 299,102              |
|  | <b>1,783,774</b>     | <b>1,716,602</b>     |
| <b>Net financial assets</b>                    | <b>2,237,723</b>     | <b>2,388,143</b>     |
| <b>Contingencies (Note 11)</b>                 |                      |                      |
| <b>Non-financial assets</b>                    |                      |                      |
| Inventory for own use                          | 216,885              | 188,269              |
| Tangible capital assets (Note 8)               | 20,816,987           | 20,434,443           |
|  | <b>21,033,872</b>    | <b>20,622,712</b>    |
| <b>Accumulated surplus (Note 9)</b>            | <b>\$ 23,271,595</b> | <b>\$ 23,010,855</b> |

Approved on Behalf of the Company:

  
\_\_\_\_\_ Chair

  
\_\_\_\_\_ President & CEO

**The Owen Sound Transportation Company Limited**  
**Statement of Operations and Accumulated Surplus**

| <b>For the year ended March 31</b>   | 2019<br>Budget<br>(Note 10) | 2019<br>Actual      | 2018<br>Actual       |
|--|-----------------------------|---------------------|----------------------|
| <b>Revenues</b>  |                             |                     |                      |
| Ministry of Energy, Northern Development<br>and Mines subsidy (Note 13(a)) | \$ 6,198,000                | \$ 5,107,513        | \$ 3,499,442         |
| Vehicles   | 3,721,900                   | 3,616,780           | 3,796,456            |
| Passenger revenue  | 2,810,000                   | 2,804,540           | 2,880,393            |
| Cafeteria  | 1,025,500                   | 1,065,361           | 1,022,303            |
| Pelee Island ferry service<br>management fee (Note 13 (b))                 | 529,000                     | 468,904             | 465,989              |
| Interest, freight and other  | 320,600                     | 346,685             | 437,502              |
| Tuck and terminal gift shop revenue  | 260,000                     | 313,590             | 309,995              |
|  | <b>14,865,000</b>           | <b>13,723,373</b>   | <b>12,412,080</b>    |
| <b>Expenses</b>  |                             |                     |                      |
| Repairs and maintenance (Note 13(a))                                       | 1,738,970                   | 2,283,794           | 778,164              |
| Salaries and wages   | 4,441,000                   | 4,317,310           | 3,954,046            |
| General and administrative expenses  | 2,092,087                   | 1,884,499           | 1,907,831            |
| Fuel   | 1,142,300                   | 1,386,391           | 1,052,445            |
| Services   | 1,116,726                   | 1,062,718           | 1,048,943            |
| Employee benefits  | 940,125                     | 1,013,817           | 978,839              |
| Amortization   | -                           | 1,138,087           | 1,094,714            |
| Utilities  | 245,530                     | 236,216             | 232,450              |
| Tools and operating supplies   | 158,450                     | 139,801             | 139,790              |
|  | <b>11,875,188</b>           | <b>13,462,633</b>   | <b>11,187,222</b>    |
| <b>Annual surplus (Note 10)</b>  | <b>2,989,812</b>            | <b>260,740</b>      | <b>1,224,858</b>     |
| <b>Accumulated surplus, beginning of the year</b>                          | <b>23,010,855</b>           | <b>23,010,855</b>   | <b>21,785,997</b>    |
| <b>Accumulated surplus, end of the year</b>                                | <b>\$ 26,000,667</b>        | <b>\$23,271,595</b> | <b>\$ 23,010,855</b> |

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

**The Owen Sound Transportation Company Limited**  
**Statement of Changes in Net Financial Assets**

| <b>For the year ended March 31</b>                 | 2019<br>Budget<br>(Note 10) | 2019<br>Actual | 2018<br>Actual |
|--|-----------------------------|----------------|----------------|
| <b>Annual surplus (Page 5)</b>                     | \$ 2,989,812                | \$ 260,740     | \$ 1,224,858   |
| Acquisition of tangible capital assets             | (2,971,000)                 | (1,520,631)    | (1,158,822)    |
| Amortization of tangible capital assets            | -                           | 1,138,087      | 1,094,714      |
|  | (2,971,000)                 | (382,544)      | (64,108)       |
|  | 18,812                      | (121,804)      | 1,160,750      |
| Change in inventories for own use                  | -                           | (28,616)       | 22,318         |
| <b>Increase (decrease) in net financial assets</b> | 18,812                      | (150,420)      | 1,183,068      |
| <b>Net financial assets, beginning of the year</b> | 2,388,143                   | 2,388,143      | 1,205,075      |
| <b>Net financial assets, end of the year</b>       | \$ 2,406,955                | \$ 2,237,723   | \$ 2,388,143   |

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

**The Owen Sound Transportation Company Limited**  
**Statement of Cash Flows**

| <b>For the year ended March 31</b>                         | <b>2019</b>         | <b>2018</b>         |
|--|---------------------|---------------------|
| <b>Cash provided by (used in)</b>                          |                     |                     |
| <b>Operating activities</b>                                |                     |                     |
| Annual surplus   | \$ 260,740          | \$ 1,224,858        |
| Items not affecting cash                                   |                     |                     |
| Amortization   | 1,138,087           | 1,094,714           |
| Change in workers' safety insurance obligations (Note 7)   | 23,184              | 22,358              |
| Change in employee future benefit obligations (Note 6)     | 80,638              | 79,147              |
|  | <u>1,502,649</u>    | <u>2,421,077</u>    |
| Changes in non-cash working capital balances               |                     |                     |
| Accounts receivable  | (1,221,670)         | (231,453)           |
| Inventory held for resale                                  | (15,684)            | 5,995               |
| Inventory for own use                                      | (28,616)            | 22,318              |
| Accounts payable and accrued liabilities                   | (36,650)            | (479,971)           |
|  | <u>200,029</u>      | <u>1,737,966</u>    |
| <b>Investing activities</b>                                |                     |                     |
| Purchase of capital assets                                 | (1,520,631)         | (1,158,822)         |
| <b>Change in cash and cash equivalents during the year</b> | <u>(1,320,602)</u>  | <u>579,144</u>      |
| <b>Cash and cash equivalents, beginning of the year</b>    | <u>2,573,093</u>    | <u>1,993,949</u>    |
| <b>Cash and cash equivalents, end of the year</b>          | <u>\$ 1,252,491</u> | <u>\$ 2,573,093</u> |

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



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# The Owen Sound Transportation Company Limited

## Notes to Financial Statements

March 31, 2019

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### 1. Summary of Significant Accounting Policies

|                                  |   |
|----------------------------------|---|
| <b>Nature of Business</b>        | <p>The Owen Sound Transportation Company Limited ("OSTC"), an operational enterprise agency of the Province of Ontario, owns and operates a seasonal vehicle and passenger ferry, the M.S. Chi-Cheemaun, from Tobermory to Manitoulin Island and the M.V. Niska, from Moosonee to Moose Factory Island. It also provides vessel management services for the Ministry of Transportation for two vessels, the M.V. Pelee Islander and the M.V. Jiimaan, operating on the Pelee Island service, and a daily air service between the Ontario mainland and Pelee Island during the winter months when the ferry service is not in operation.</p> <p>OSTC's one issued and outstanding common share is held by the Ministry of Energy, Northern Development and Mines (ENDM).</p> |
| <b>Management Responsibility</b> | <p>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.</p>  |
| <b>Basis of Accounting</b>       | <p>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.</p> <p>The accrual basis of accounting recognizes the effect of transactions and events in the period in which the transactions and events occur, regardless of whether there has been a receipt or payment of cash or its equivalent.</p>  |
| <b>Cash and Cash Equivalents</b> | <p>Cash and cash equivalents include cash on hand and balances with banks.</p>  |
| <b>Inventory</b>                 | <p>Inventory of goods held for resale is recorded at the lower of cost and net realizable value. Cost is determined based on a first-in first-out methodology.</p> <p>Inventory for own use is recorded at the lower of cost and replacement cost.</p>  |

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# The Owen Sound Transportation Company Limited

## Notes to Financial Statements

March 31, 2019

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### 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.

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## The Owen Sound Transportation Company Limited

### Notes to Financial Statements

March 31, 2019

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#### 1. Summary of Significant Accounting Policies - (continued)

|  |  |
|--|--|
| <b>Bank Indebtedness</b>               | Bank indebtedness includes short-term overdrafts.  |
| <b>Income Taxes</b>                    | 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.  |
| <b>Employee Future Benefits</b>        | <p>OSTC's eligible employees continue to participate in the defined benefit pension plan of the ONTC (OSTC's former parent). The contributions to the pension plan, a multi-employer defined benefit plan are expensed when due.</p> <p>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.</p> <p>In addition, eligible employees are also entitled to non-pension post-retirement benefits such as group life, health care and long-term disability as part of the ONTC multiple-employer group plan. The costs associated with these future benefits are actuarially determined using the projected benefits method pro-rated on service and best estimate assumptions.</p> <p>Both pension and non-pension expenses consist of current service costs, interest and adjustments arising from plan amendments, changes in assumptions and net actuarial gains or losses. These expenses are recorded in the year in which employees render services to OSTC.</p> |
| <b>Workers' Safety &amp; Insurance</b> | 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.  |

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# The Owen Sound Transportation Company Limited

## Notes to Financial Statements

March 31, 2019

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### 1. Summary of Significant Accounting Policies - (continued)

#### Liability for Contaminated Sites

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.

#### 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.

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**The Owen Sound Transportation Company Limited**  
**Notes to Financial Statements**

**March 31, 2019**

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**1. Summary of Significant Accounting Policies - (continued)**

**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.

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**The Owen Sound Transportation Company Limited**  
**Notes to Financial Statements**

**March 31, 2019**

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**2. Cash and Cash Equivalents**

|              | <u>2019</u>         | <u>2018</u>         |
|--------------|---------------------|---------------------|
| Cash on hand | \$ 17,950           | \$ 15,150           |
| Bank         | 1,232,101           | 2,555,747           |
| In transit   | 2,440               | 2,196               |
|              | <u>\$ 1,252,491</u> | <u>\$ 2,573,093</u> |

On March 31, 2019, the company had deposits of \$2,219,474 in a Canadian Chartered bank. The Canadian Deposit Insurance Corporation insures deposits up to a maximum of \$100,000 per depositor per financial institution.

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**3. Accounts Receivable**

|  | <u>2019</u>         | <u>2018</u>         |
|--|---------------------|---------------------|
| Ministry of Energy, Northern Development and Mines | \$ 532,809          | \$ 185,002          |
| Ministry of Transportation                         | 1,869,702           | 956,559             |
| Other  | 281,585             | 320,865             |
|  | <u>\$ 2,684,096</u> | <u>\$ 1,462,426</u> |

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**4. Bank Indebtedness**

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, 2019 the company had undrawn credit capacity under this facility of \$2,000,000.

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## The Owen Sound Transportation Company Limited

### Notes to Financial Statements

March 31, 2019

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#### 5. Pension Agreements

##### *Ontario Northland Transportation Commission*

The company made contributions to the Contributory Pension Plan of the Ontario Northland Transportation Commission (the "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 2019 by the Owen Sound Transportation Company Limited was \$8,174 (2018 - \$97,851). Members contribute 5.50% 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 7.30% 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, 2017. At that time the plan reported a \$71.8 million actuarial deficit (2014 - \$66.0 million actuarial deficit), based on actuarial liabilities of \$593.5 million (2014 - \$540.9 million), actuarial assets of \$521.7 million (2014 - \$483.0 million) and a prior year credit balance of \$Nil (2014 - \$8.1 million). The Ontario Northland Pension Plan is currently underfunded due to losses sustained by the fund during 2008-2009 and the historically low interest rates in the following years. The province has recognized the challenges faced by public sector employers and has provided an opportunity for Ontario Northland to reduce their pension contributions by applying for a funding relief program. Ontario Northland is reviewing their plan, identifying potential cost savings, and seeking input into potential changes to the plan to consider continued sustainability.

On May 1, 2018 all 12 employees stopped contribution to the Ontario Northland Transportation Commission and began contributing to the Ontario Service Pension Plan. The employees old pensions are still being held by the Ontario Northland Transportation Commission but are planning to be transferred to the Ontario Service Pension Plan at some point in the near future.

##### *Ontario Public Service Pension Plan*

The company makes contributions to the Contributory Pension Plan of the Ontario Public Service Pension Plan, which is a multi-employer plan, on behalf of 29 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 2019 by the Owen Sound Transportation Company Limited was \$137,930 (2018 - \$55,729). Members contribute 6.9% (2018 - 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 10.0% (2018 - 9.5%) of all other earnings.

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**The Owen Sound Transportation Company Limited**  
**Notes to Financial Statements**

**March 31, 2019**

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**5. Pension Agreements - (continued)**

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, 2018. At that time the plan reported a \$1.89 billion actuarial deficit (2017 - \$0.74 billion actuarial deficit), based on actuarial liabilities of \$28.4 billion (2017 - \$27.2 billion) and actuarial assets of \$26.6 billion (2017 - \$26.5 billion). Ongoing adequacy of the current contribution rates will need to be monitored as financial market fluctuations may lead to increased future funding requirements.

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**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:

|                                      | <u>2019</u>         | <u>2018</u>         |
|--------------------------------------|---------------------|---------------------|
| Current period benefit cost          | \$ 1,421,113        | \$ 1,389,780        |
| Unamortized actuarial loss           | (263,924)           | (313,229)           |
| Non-pension post-retirement benefits | 1,157,189           | 1,076,551           |
| Accrued pension benefit              | -                   | -                   |
|                                      | <u>\$ 1,157,189</u> | <u>\$ 1,076,551</u> |

**Non-Pension Benefits**

Payments for these benefits totalled \$147,193 (2018 - \$127,669) which include payments for current and retired employees. Actuarial valuations for accounting purposes are performed for the non-pension post-retirement benefits using the projected benefit method, pro-rated on services. The most recent actuarial report was prepared as at March 31, 2016.



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**The Owen Sound Transportation Company Limited**  
**Notes to Financial Statements**

**March 31, 2019**

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**6. Retirement and Post-Employment Benefits - (continued)**

The actuarial valuation was based on a number of assumptions about future events, such as inflation rates, medical inflation rates, wage increases, employee turnover and mortality rates. The assumptions used reflect management's best estimates. The post-employment benefit liability was determined using a discount rate of 4.75%. For extended health care costs, a 5.3% annual rate of increase was assumed for 2017, decreasing to a rate of 4.0% per year for 2021. For dental costs, a 4.0% annual rate of increase was assumed.

|                                | <u>2019</u>      |    | <u>2018</u>     |
|--------------------------------|------------------|----|-----------------|
| Current period benefit cost    | \$ 28,655        | \$ | 26,819          |
| Amortization of actuarial loss | <u>49,305</u>    |    | <u>49,305</u>   |
| Retirement benefit expense     | 77,960           |    | 76,124          |
| Interest costs                 | 65,210           |    | 63,791          |
| Benefits paid                  | <u>(62,532)</u>  |    | <u>(60,768)</u> |
| Total expense for the year     | <u>\$ 80,638</u> | \$ | <u>79,147</u>   |

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**The Owen Sound Transportation Company Limited**  
**Notes to Financial Statements**

**March 31, 2019**

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**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.

|                                   | 2019              | 2018              |
|-----------------------------------|-------------------|-------------------|
| Accrued benefit obligation        | \$ 309,268        | \$ 306,651        |
| Unamortized actuarial gain (loss) | 13,018            | (7,549)           |
|                                   | <b>\$ 322,286</b> | <b>\$ 299,102</b> |

Actuarial valuations for accounting purposes are performed for the WSIB future benefits using the projected benefit method. The most recent actuarial report was prepared as at March 31, 2016.

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

|                             | 2019             | 2018             |
|-----------------------------|------------------|------------------|
| Current period benefit cost | \$ 27,356        | \$ 26,138        |
| Amortization of losses      | 20,567           | 20,567           |
|                             | 47,923           | 46,705           |
| WSIB benefit expense        | 12,816           | 12,724           |
| Interest costs              | (37,555)         | (37,071)         |
| Benefits paid               | 23,184           | 22,358           |
| Total expense for the year  | <b>\$ 23,184</b> | <b>\$ 22,358</b> |

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**8. Tangible Capital Assets**

At March 31, 2018, there were \$1,520,630 (2018 - \$1,145,821) Chi-Cheemaun Ferry capital assets that were not being amortized due to installation not being complete.

In 2018, OSTC purchased \$1,501,890 (2018 - \$1,136,442) worth of tangible capital assets with capital funding. Capital funding of \$1,242,623 (2018 - \$Nil) was received for projects that did not meet the capitalization requirements and were expensed as a result. OSTC used \$18,740 (2018 - \$22,380) of its own operating funds to cover additional capital costs.

**The Owen Sound Transportation Company Limited**  
Notes to Financial Statements

**March 31, 2019**

**8. Tangible Capital Assets - (continued)**

|  |           |                      |                               |                        |                           |              | 2019          |
|--|-----------|----------------------|-------------------------------|------------------------|---------------------------|--------------|---------------|
|  | Land      | Land<br>Improvements | Buildings and<br>Improvements | Equipment<br>and Other | Chi-<br>Cheemaun<br>Ferry | Niska Ferry  | Total         |
| Cost, beginning of the year                        | \$ 76,100 | \$ 20,200            | \$ 2,427,423                  | \$ 702,786             | \$ 31,301,546             | \$ 4,420,172 | \$ 38,948,227 |
| Additions  | -         | -                    | 446,083                       | 12,948                 | 978,708                   | 82,892       | 1,520,631     |
| Cost, end of the year                              | 76,100    | 20,200               | 2,873,506                     | 715,734                | 32,280,254                | 4,503,064    | 40,468,858    |
| Accumulated amortization,<br>beginning of the year | -         | 10,100               | 1,235,510                     | 593,630                | 16,021,487                | 653,057      | 18,513,784    |
| Amortization                                       | -         | 1,010                | 202,624                       | 39,237                 | 715,360                   | 179,856      | 1,138,087     |
| Accumulated amortization,<br>end of the year       | -         | 11,110               | 1,438,134                     | 632,867                | 16,736,847                | 832,913      | 19,651,871    |
| Net carrying amount,<br>end of the year            | \$ 76,100 | \$ 9,090             | \$ 1,435,372                  | \$ 82,867              | \$ 15,543,407             | \$ 3,670,151 | \$ 20,816,987 |

**The Owen Sound Transportation Company Limited**  
Notes to Financial Statements

**March 31, 2019**

**8. Tangible Capital Assets - (continued)**

|  |           |                      |                               |                        |                           |              | 2018          |
|--|-----------|----------------------|-------------------------------|------------------------|---------------------------|--------------|---------------|
|  | Land      | Land<br>Improvements | Buildings and<br>Improvements | Equipment<br>and Other | Chi-<br>Cheemaun<br>Ferry | Niska Ferry  | Total         |
| Cost, beginning of the year                        | \$ 76,100 | \$ 20,200            | \$ 2,268,145                  | \$ 695,746             | \$ 30,309,042             | \$ 4,420,172 | \$ 37,789,405 |
| Additions  | -         | -                    | 159,278                       | 7,040                  | 992,504                   | -            | 1,158,822     |
| Cost, end of the year                              | 76,100    | 20,200               | 2,427,423                     | 702,786                | 31,301,546                | 4,420,172    | 38,948,227    |
| Accumulated amortization,<br>beginning of the year | -         | 9,090                | 1,035,298                     | 554,082                | 15,347,947                | 472,653      | 17,419,070    |
| Amortization                                       | -         | 1,010                | 200,212                       | 39,548                 | 673,540                   | 180,404      | 1,094,714     |
| Accumulated amortization,<br>end of the year       | -         | 10,100               | 1,235,510                     | 593,630                | 16,021,487                | 653,057      | 18,513,784    |
| Net carrying amount,<br>end of the year            | \$ 76,100 | \$ 10,100            | \$ 1,191,913                  | \$ 109,156             | \$ 15,280,059             | \$ 3,767,115 | \$ 20,434,443 |

**The Owen Sound Transportation Company Limited**  
**Notes to Financial Statements**

**March 31, 2019**

**9. Accumulated Surplus**

Accumulated surplus consists of the following categories:

|  | <u>2019</u>         | <u>2018</u>   |
|--|---------------------|---------------|
| Invested in tangible capital assets (Note 8) | <b>\$20,816,987</b> | \$ 20,434,443 |
| Unfunded WSIB benefits (Note 7)              | <b>(322,286)</b>    | (299,102)     |
| Unfunded future employee benefits (Note 6)   | <b>(1,157,189)</b>  | (1,076,551)   |
| General surplus (Note 10)                    | <b>3,934,083</b>    | 3,952,065     |
|  | <hr/>               | <hr/>         |
| Accumulated surplus                          | <b>\$23,271,595</b> | \$ 23,010,855 |

**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 2019 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.

|  | <u>2019</u>        | <u>2019</u>        | <u>2018</u>        |
|--|--------------------|--------------------|--------------------|
|  | Budget             | Actual             | Actual             |
| Annual surplus (Page 5)                        | \$ 2,989,812       | \$ 260,740         | \$ 1,224,858       |
| Amortization                                   | -                  | 1,138,087          | 1,094,714          |
| Change in unfunded liabilities                 | -                  | 103,822            | 101,505            |
|  | <hr/>              | <hr/>              | <hr/>              |
|  | 2,989,812          | 1,502,649          | 2,421,077          |
| Capital acquisitions, disposals and write-down | <b>(2,971,000)</b> | <b>(1,520,631)</b> | <b>(1,158,822)</b> |
|  | <hr/>              | <hr/>              | <hr/>              |
|  | 18,812             | (17,982)           | 1,262,255          |
| Prior year general surplus                     | -                  | 3,952,065          | 2,689,810          |
|  | <hr/>              | <hr/>              | <hr/>              |
| General surplus (Note 9)                       | \$ 18,812          | \$ 3,934,083       | \$ 3,952,065       |

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## The Owen Sound Transportation Company Limited

### Notes to Financial Statements

**March 31, 2019**

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#### 11. Contingencies

- a) OSTC was named in a number of litigations resulting from a fatal plane crash at Pelee Island on January 17, 2004. One claim remains outstanding.

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 the remaining claim is 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) OSTC has not reached a collective agreement with the Seafarer's International Union of Canada. This contract expired on December 31, 2018. The outcome is not determinable at the present time.
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#### 12. Financial Instrument Classification

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

|  | 2019         |              |              |
|--|--------------|--------------|--------------|
|  | Fair Value   | Cost         | Total        |
| Cash and cash equivalents                | \$ 1,252,491 | \$ -         | \$ 1,252,491 |
| Accounts receivable                      | \$ -         | \$ 2,684,096 | \$ 2,684,096 |
| Accounts payable and accrued liabilities | \$ -         | \$ (304,299) | \$ (304,299) |
|  | 2018         |              |              |
|  | Fair Value   | Cost         | Total        |
| Cash and cash equivalents                | \$ 2,573,093 | \$ -         | \$ 2,573,093 |
| Accounts receivable                      | \$ -         | \$ 1,462,426 | \$ 1,462,426 |
| Accounts payable and accrued liabilities | \$ -         | \$ (340,949) | \$ (340,949) |

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

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## The Owen Sound Transportation Company Limited

### Notes to Financial Statements

March 31, 2019

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#### 13. Government Funding

##### a) Ministry of Energy, Northern Development and Mines

Under the terms of a memorandum of understanding with the Ministry of Energy, Northern Development and Mines, OSTC receives both operational and capital funding from the Province of Ontario. The operational subsidies are received for the Owen Sound and Moosonee operations based on an approved operating plan and are cash flowed to OSTC on a quarterly basis. These amounts totalled \$2,363,000 (2018 - \$2,363,000).

Capital subsidies are paid to OSTC on submission of invoices for capital items consistent with its approved capital plan. These amounts totalled \$1,501,890 (2018 - \$1,136,442). additional capital funding of \$1,242,643 (2018 - \$NIL) was received for projects that did not meet the capitalization requirements. Capital and operating payments received during the year totalled \$5,107,513 (2018 - \$3,499,442).

##### 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 \$468,904 in management fees for the 2018 sailing season.

The amended 5 year agreement, ending March 2023, 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.

##### c) Change of Ministry

Subsequent to year end, the OSTC was informed that effective April 1, 2019 the M.S. Chi-Cheemaun and M.V. Niska 1 operations were going to receive their funding through the Ministry of Transportation and no longer receive the funding through the Ministry of Energy, Northern Development and Mines.

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#### 14. Economic Dependence

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

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**The Owen Sound Transportation Company Limited**  
**Notes to Financial Statements**

**March 31, 2019**

**15. 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 1**

The M.V. Niska 1 is a landing craft style ferry that runs between Moosonee and Moose Factory Island on the Moose River, in Northern Ontario.

| <b>For the year ended<br/>March 31</b>    | <b>M.S.</b>         |                     | <b>2019 Total</b>  | <b>2018 Total</b>   |
|---|---------------------|---------------------|--------------------|---------------------|
|   | <b>Chi-Cheemaun</b> | <b>M.V. Niska 1</b> |                    |                     |
| <b>Revenue</b>                            |                     |                     |                    |                     |
| ENDM subsidy                              | \$ 4,637,121        | \$ 470,392          | \$ 5,107,513       | \$ 3,499,442        |
| Ferry services                            | 7,785,412           | 14,859              | 7,800,271          | 8,009,147           |
| Pelee Island ferry service management fee | 468,904             | -                   | 468,904            | 465,989             |
| Interest, freight and other               | 190,304             | 156,381             | 346,685            | 437,502             |
|   | <b>13,081,741</b>   | <b>641,632</b>      | <b>13,723,373</b>  | <b>12,412,080</b>   |
| <b>Expenses</b>                           |                     |                     |                    |                     |
| Repairs and maintenance                   | 2,105,027           | 178,767             | 2,283,794          | 778,164             |
| Salaries and wages                        | 4,231,496           | 85,814              | 4,317,310          | 3,954,046           |
| General and administrative                | 1,725,052           | 159,447             | 1,884,499          | 1,907,831           |
| Fuel                                      | 1,355,639           | 30,752              | 1,386,391          | 1,052,445           |
| Services                                  | 833,633             | 229,085             | 1,062,718          | 1,048,943           |
| Employee benefits                         | 1,013,817           | -                   | 1,013,817          | 978,839             |
| Amortization                              | 958,230             | 179,857             | 1,138,087          | 1,094,714           |
| Utilities                                 | 232,753             | 3,463               | 236,216            | 232,450             |
| Tools and operating supplies              | 135,144             | 4,657               | 139,801            | 139,790             |
|   | <b>12,590,791</b>   | <b>871,842</b>      | <b>13,462,633</b>  | <b>11,187,222</b>   |
| <b>Annual surplus (deficit)</b>           | 490,950             | (230,210)           | 260,740            | 1,224,858           |
| Amortization                              | 958,230             | 179,857             | 1,138,087          | 1,094,714           |
| Capital purchases                         | (1,603,523)         | 82,892              | (1,520,631)        | (1,158,822)         |
| Unfunded liabilities                      | 103,822             | -                   | 103,822            | 101,505             |
| <b>Operating surplus (deficit)</b>        | <b>\$ (50,521)</b>  | <b>\$ 32,539</b>    | <b>\$ (17,982)</b> | <b>\$ 1,262,255</b> |



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## The Owen Sound Transportation Company Limited

### Notes to Financial Statements

March 31, 2019

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#### 16. 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 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.

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

Accounts receivable are primarily due from CRA, ENDM 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, 2019 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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