2002 Annual Report 2003

Owen Sound Transportation Company Limited

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The Owen Sound Transportation Company is an Agency of the Province of Ontario.

Services are financially supported by the Provincial Government through a Contribution Agreement with the Ministry of Northern Development and Mines.

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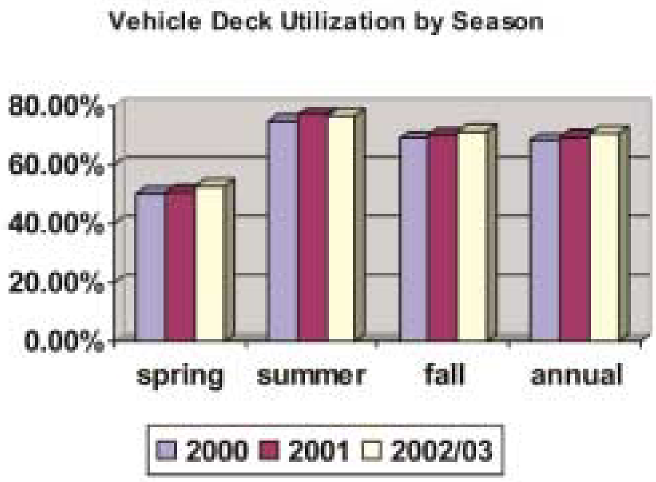
Year-In-Review

The year 2002/ 03 was a transition period for the Owen Sound Transportation Company Limited. Originally established in 1921 as a privately owned and operated Corporation, the OSTC had been a wholly owned subsidiary of the Ontario Northland Transportation Commission for the last 30 years. In 2001, the Ministry of Northern Development and Mines mandated the implementation of a Service Improvement Plan for the ONTC. On April 1, 2002, the OSTC was separated from the Commission and established as a stand-alone Operational Enterprise Agency of the Province of Ontario. Administrative and Accounting functions, previously performed by the ONTC, became the responsibility of the OSTC, and internal systems were established to take on the additional tasks. The OSTC also changed its fiscal year-end date from December 31 to March 31, to conform to the fiscal year-end of the Province. This change necessitated a 15-month fiscal year, ending March 31, 2002; the months January – March 2002 being represented in the ONTC 2002 Annual Report.

The first five-member Board of Directors for the OSTC was established by Ministerial appointment, to provide guidance and corporate governance for the Corporation through the administration of the Memorandum of Understanding between the Owen Sound Transportation Company and the sole shareholder, the Minister of Northern Development and Mines.

OSTC Management personnel assumed the challenge of ensuring that the transition did not affect the operations of the ships, and the level of safety and service provided to the travelling public. This was successfully accomplished by meeting and exceeding the performance measures and strategic goals established in the 2002/03 Business Plan.

2002/03 was an excellent year for traffic carried, and on-time performance. The M.S. Chi-Cheemaun carried 237,504 passengers and 89,645 vehicles, representing an increase of 1% and 3% in vehicles and passengers carried per crossing respectively. Vehicle deck utilization rates increased from an annual average of 69.51% in 2001 to 70.51% in 2002/03. Annual average passenger utilization rates also increased from 38.21% to 39. 35%. On-time performance for the year



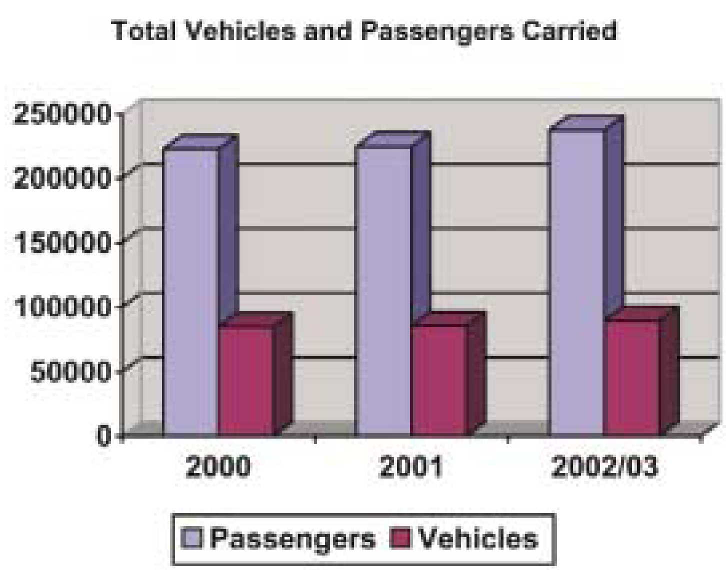
was measured at 99.5%; the *M.S. Chi-Cheemaun* having lost only 10 hours and 3 minutes to mechanical delays over the season. Four round trips were cancelled due to adverse weather conditions.

New initiatives introduced in 2002, to improve customer service, included the "Priority Passage" reservation service. This service made a portion of the vehicle deck on the traditionally non-reservable departures available for reservations, and shortened the pre-departure arrival time from 1 hour to 30 minutes for "Priority Passage" customers.

The OSTC continued to improve its delivery of services to the public by moving the administration and reservations' offices to a more accessible location at the edge of the Owen Sound city limits and the intersection of three major highways leading north to the Bruce Peninsula, Tobermory, and the ferry dock.

In 2002, OSTC purchased a vacant Tourism Information building from the Southern Ontario Tourism Association. Renovations and a building expansion were required to provide better customer access to ferry reservations and tourism information for the immediate region, the Bruce Peninsula, and Manitoulin Island. The Tourism Information Centre is an expansion to the information centres already operated by the Corporation on-board the *M.S. Chi- Cheemaun* and at both the Tobermory and South Baymouth Terminal buildings.

Designed to meet the requirements of the *Ontarians with Disabilities Act,* the official opening of the *Chi-Cheemaun Reservations* and *Tourism Information Centre* is planned for May 2003.



MESSAGE FROM THE CHAIRMAN

On April 1, 2002, the Owen Sound Transportation Company Limited (OSTC) was moved from the Ontario Northland Transportation Commission (ONTC) to become a stand-alone Operational Enterprise Agency of the Province of Ontario under the Minister of Northern Development and Mines. This reorganization included the formation of a five member Board of Directors and the appointment of a President. Other minor revisions to the OSTC organizational structure were implemented to ensure the complete assumption of administrative duties previously performed by ONTC.

Simply put, the Government of Ontario has established the OSTC to provide safe, efficient and reliable ferry transportation in the Province of Ontario. Since the reorganization, the management and staff have continued to prove that their outstanding abilities and dedication are up to the task of providing that service as a stand-alone enterprise. Not surprisingly, while providing that service, they have met or exceeded all performance measurement criteria while earning a Customer Satisfaction rating of 99.5%.

Congratulations are extended to the OSTC staff and may they enjoy continued success.

Barney Hopkins
Chair – Board of Directors
Owen Sound Transportation Company Limited

MESSAGE FROM THE PRESIDENT

In 2001, the Province of Ontario, through the Ontario Northland Transportation Commission's Service Improvement Plan, determined that the Marine Services Division of the Commission should be established once again as The Owen Sound Transportation Company Limited – a stand-alone operational enterprise agency of the Province of Ontario with headquarters in Owen Sound originally incorporated under the Ontario *Business Corporations'* Act in 1921.

2002 was the first full year of operation under the new administration and I am pleased to report that OSTC exceeded the expectations established in the 2002/03 Business Plan. The Corporation realized the third consecutive year of increased traffic levels on the Manitoulin Island – Tobermory ferry service, and maintained a 99.5% rating for both on-time performance and customer satisfaction.

Looking forward, OSTC is appropriately focused on the three-year program to replace the M.S. *Chi-Cheemaun's* twenty-eight year old propulsion plant equipment, a significant capital improvement that will enable the Corporation to maintain the established high standards of reliability and safety on the ferry service.

I would like to express my gratitude to the first OSTC Board of Directors for their support and, to the OSTC employees for their persistent dedication to our customers. Finally, I would like to express on behalf of the OSTC employees, our gratitude to the communities we serve for their unfailing belief in the ferry service and their activism in marketing the unique experience the ferry and the region have to offer.

Roy Hains
President, Owen Sound Transportation Company Limited

CORPORATION PROFILE

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

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

OSTC is an integral part of Ontario's tourism and transportation system. The M.S. Chi-Cheemaun ferry service, owned by OSTC, provides alternate transportation to Manitoulin Island and the Bruce Peninsula, drawing tourists to the area from May through October each year.

OSTC is also contracted by the Ontario Ministry of Transportation to provide year-round transportation services to Pelee Island on Lake Erie.

During 2002/03, OSTC was responsible for the operation of three ships and five terminal facilities on three ferry routes.

OSTC's workforce consists of unionized and management employees. Unionized employees are members of the Seafarer's International Union of Canada, and the Canadian Marine Officers' Union. OSTC is responsible for the administration of five collective agreements. The workforce consists of 17 full-time employees augmented by 180 seasonal employees.

CORPORATE GOVERNANCE

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

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

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

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 a seasonal vehicle/passenger ferry service between Tobermory and South Baymouth, Manitoulin Island. It contributes to economic development in this region by supporting the creation of a positive business climate, and by enhancing and promoting the tourism sector through partnerships with local communities and regional stakeholders.

from left: Ken Hillyer, John Hodder, Bob Lamb, Barney Hopkins (Royal Poulin, absent)

BOARD OF DIRECTORS

Barney Hopkins – Chair – Tobermory

Royal Poulin – Vice Chair – West Nipissing

John Hodder – Board Member – Manitoulin Island

Ken Hillyer – Board Member – Owen Sound

Bob Lamb – Board Member – Matheson
Chair – Audit Committee

(All appointed April 1, 2002 – March 31, 2005)

EXECUTIVE MANAGEMENT

R.F. Hains
President
(Appointed April 1, 2002)

S.M. Schrempf
General Manager

I.R. Dean
Manager Operations
& Customer Service

J. Fregeau
Manager Finance &
Administration

B. Pyke
Manager Technical Services

R. Thompson
Acting Board Secretary
(Appointed April 1, 2002)

Key Indicators	**2002/03**	**2001**	**2000**
Income per passenger (ticket and on-board sales)	$26.40	$25.23	$24.02
Expense per passenger (operating only)	$30.29	$32.13	$29.50
Percentage of operating expenses recovered from income	87.18%	78.54%	81.41%
Retail Services Revenue per passenger	$4.11	$3.77	$3.96
Advertising expense per passenger	$0.67	$0.79	$0.63
Passengers carried	237,504	224,654	222,549
Utilization – passengers	39.35%	38.21%	37.77%
Vehicles carried	89,645	85,603	84,763
Utilization – vehicles	70.51%	69.51%	68.26%
Annual total # of departures	1,006	980	982
Average # of vehicles per departure	89	87	86
Average # of passengers per vehicle	2.65	2.62	2.63

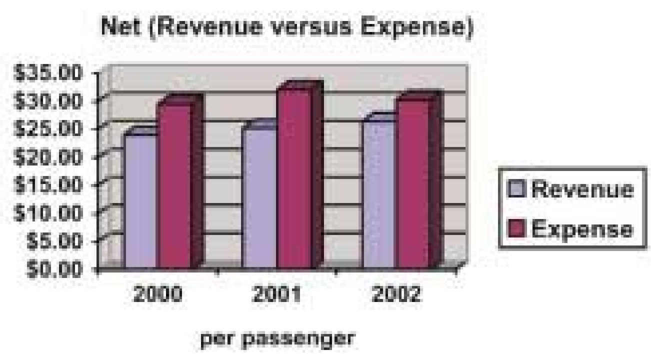
Financial Highlights *(Year ended March 31, 2003)*	**2002/03**	**2001**	**2000**
Operations:			
Commercial Revenues	$6,290,324		
Operating Contract Revenues	$355,396		
Total Revenue	$6,645,720		
Operating Expenses	$7,187,210		
Amortization	$6,151		
Total Expense	$7,193,361		
Loss before Provincial Funding	-$547,641		
Provincial Funding	$780,000		
Net (loss) earnings	$232,359		
Assets:			
Current	$3,303,678		
Investment in Capital Assets	$1,645,565		
Total Assets	$4,949,243		

FINANCIAL PERFORMANCE

Increased traffic levels experienced in 2002 resulted in a $770,550 favourable revenue variance relative to budget. These revenues were partially offset by the additional operating costs associated with the operation of seven extra service days during the 2002 season as compared to 2001. The "season" is defined as beginning on the first Friday in May, and ending on the Sunday following Thanksgiving Monday, in October. The number of actual operating days, therefore, fluctuates with the calendar as the season is measured from a specific 'day-of-the-week' as opposed to 'date-in-the-month'.

Revenues were further offset by a $281,053 overrun in Repairs & Maintenance which occurred largely in the engine room of the *M.S. Chi-Cheemaun*. To some degree, this expense overrun reflects the need to replace the 28-year old propulsion plant machinery.

During 2002, OSTC finalized a long-standing dispute with the Federal Department of Fisheries and Oceans regarding the Federal Government's ability to impose a tax on a provincial agency in the form of Marine Services' fees; fees to have the use of public navigation markers, and data received from satellites for the electronic navigation equipment of the ship. After several years of debate, and some movement by Fisheries and Oceans regarding the application of the fee to seasonal vessels, an amount owing was agreed upon and paid by OSTC in 2002. The payment made represents four years of non-payment with only a portion of that cost recurring on an annual basis.



Using a "per passenger" unit of measure, inclusive of seven extra operating days, and additional expenses noted in this discussion, OSTC recovered 87.18% of the operating cost per passenger in 2002 as compared to 78.54% in 2001. This improvement cannot be determined to be efficient until after the 2003/04 and 2004/05 seasons, at which time there will be more accurate historical data available for comparison.

While operated by the ONTC, OSTC's financial data was reported on a December 31 calendar year and consolidated within ONTC's financial statement; therefore, it is difficult to draw exact comparative historical information from that data. Historical information, for operational key indicator comparisons, has therefore, been generated from the Corporation's operating data.

In 2002/03, OSTC received operating subsidies of $780,000 and capital funds of $580,166 from the Province of Ontario through the Ministry of Northern Development and Mines. For the year ended March 31, 2003, the Corporation had realized net earnings of $232,359.

Major capital projects in 2002 included the purchase, renovation and expansion of a vacant Tourism Information building located at the intersections of three highways leading north from Owen Sound to Tobermory, and the ferry dock. OSTC's administration offices and the *M.S. Chi-Cheemaun Reservation and Tourism Information Centre* moved onto the property in January, 2003. The building is located on property managed by the Grey-Sauble Conservation Authority, owned by the Ontario Ministry of Natural Resources, and controlled by the Niagara Escarpment Commission. Capital investment in the *M.S. Chi-Cheemaun* is discussed in the Management Discussion and Analysis section of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

"I have completed many of these surveys this year. Does anyone ever read them?" - M.S. Chi-Cheemaun passenger, 2002

OSTC reads every individual survey-not once-but twice. In 2002/03, the survey process was changed to allow the Company to become immediately responsive to customers' comments.

Prior to 2002, surveys were completed over a two-week blitz during the month of August, and compiled into a single document later in the fall. This process reduced the usefulness of the survey to a planning document for the upcoming season.

During 2002, surveys were distributed, completed, received, and read on a daily basis throughout the season. Twice as many completed surveys were submitted in 2002 as compared to 2001. OSTC took immediate advantage of all opportunities to make changes that would improve customer service on a continuous basis, directly resulting from timely customer feedback.

The surveys were read and reviewed for the second time following their compilation into the 2002 results document, which was used in part for the business planning session where all departments underwent a review for larger service improvement measures.

The Management Discussion and Analysis section of an Annual Report is typically limited to management's analysis of whether the Corporation measured up to performance measures, goals and objectives established by the Corporation, for the Corporation.

In this, the First Annual Report for the Owen Sound Transportation Company, management's discussion of operation and outcomes will follow the ferry customer's experience beginning with their first exposure to the service and proceeding through a typical day in the operation of the Tobermory to Manitoulin Island ferry service. While management will discuss how the Corporation measured up against its established benchmarks, this section will also include favourable and unfavourable observations from our 2002/03 customers as provided through the 2002 customer survey.

ADVERTISING

The 2002/03 survey established that 46% of M.S. *Chi-Cheemaun* users are repeat travellers and do not require significant advertising support to sell them on the prospect of continuing to use the ferry. That segment of the market is primarily interested in access to updated service information including sailing times and fare structure as well as any new services available on the ferry. To meet that very specific need, OSTC began development of a website during 2002 with the acquisition of the www.chicheemaun.com web address, and the annual posting of the ferry service schedule rates and rules information. Future development of the website is planned for 2003/04 and 2004/05 at which time customers will be able to make on-line reservations from their home or office computers.

The remaining 54% of customers are first-time users of the ferry system and do require significant promotional support in the form of direct advertising and marketing. This group must first be made aware of the existence of the ferry service and then must be sold on using the service. Once on-board the ferry, it is OSTC's job to make sure their positive ferry experience is the magnet that draws them back for return visits.

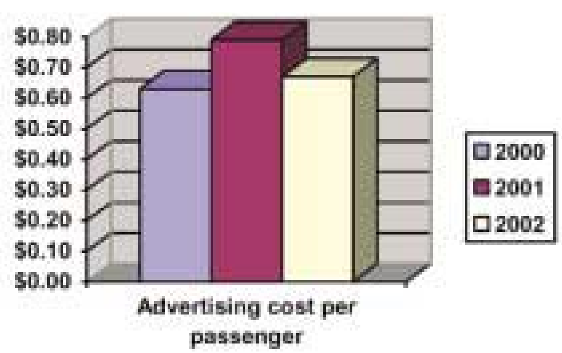
Since the ferry service itself is not the primary reason customers visit the Bruce Peninsula and Manitoulin Island, OSTC supports and promotes the production of comprehensive regional tourism booklets, and other collaborative marketing programs led by regional tourism organizations and the communities.

OSTC invested $160,000 to market the ferry service during 2002. Through collaboration with regional tourism organizations, other partnerships, and promotional strategies, OSTC was able to benefit from approximately $500,000 of advertising value.

In 2002, as in previous years, OSTC continued its strategy of producing a marketing campaign that is easily and successfully merchandised through our gift shops on shore and on the ship. Artwork designed for the marketing campaign was used on T-shirts, caps, and other retail items exclusive to the M.S. Chi-Cheemaun Boatique and the Tobermory Terminal souvenir stand.

Area-based retailers continued to have unrestricted use of the M.S. Chi-Cheemaun image for their own souvenir product lines, providing quality advertising value for the ferry, and the region at no additional cost to OSTC's operation.

In 2002, the total cost of advertising was $0.67 per passenger.



RESERVATIONS

The majority of customers, new or returning to the service, make their first contact by calling the reservation line for further information.

> *"Staff member was very courteous, helpful and patient. She obviously smiles on the phone.*"*

In 2002, and in keeping with global trends in the travel industry, 58% of surveyed, M.S. Chi-Cheemaun passengers had made a reservation on the ferry - an increase from 49% who had made reservations in 2001.

> *"Irritating to be put on hold every time we call and listen to the information.*"*

Callers seeking reservation or tourism information are greeted by the auto-attendant, the Automated Telephone System. Callers are then provided with selection options to meet their information needs. The most popular selection made is for reservations. If all of the Reservations' Agents are occupied on a call, the caller is put into the Automated Call Distribution queue where they will listen to a recorded message that provides departure times and other information items to assist the caller in making their reservation. All calls are answered in sequence and the Reservations Department holds a historical average of being able to respond to calls within 95 seconds of the caller entering the system.

In 2002, the reservation system became "web-based", making it possible to increase the number of agents able to access the system simultaneously. In future years, the web-based system will be linked to the www.chicheemaun.com website, enabling customers to make reservations on-line from their own personal computer.

In addition to upgrading the computerized component of the reservation system, the Corporation added a new level of reservation service in 2002 called "Priority Passage".

The summer sailing schedule and sailings available for reservations have not changed since the introduction of the M.S. Chi-Cheemaun to the ferry service in 1974. Reservations have historically only been available on the first and last sailings of the day, leaving the two mid-day trips "first-come, first-served".

By the late 1990's, and as a result of societal changes to the workweek, more customers were inclined to travel with a reservation than without. Customers requested that reservations be made available on the mid-day departures and the Corporation made a commitment to review the system and implement a solution that responded to the need.

> *"Priority Passage sounds good. I'll try it next time.*"*

OSTC performed a cost/benefit analysis and found there would be no negative impact on the ferry service's financial position, provided the operation balanced the request for reservations on the mid-day sailings with the requests of the passengers who continued to arrive on a "first-come, first-served" basis. OSTC also reviewed the mandate to ensure that a significant operational change would enhance that mandate of contribution to economic development in the region.

** M.S. Chi-Cheemaun passengers, 2002*


The solution was "Priority Passage", a premium reservation service for that portion of the customer base who wants to determine exactly when they travel and is willing to pay a premium price for premium service.

Customers wishing to utilize the priority reservation service, pay a non-refundable $15 reservation fee, in addition to the fare charged for the vehicle and its occupants. "Priority Passage" customers are required to arrive at the loading dock no later than 30 minutes prior to boarding, versus the 60-minute requirement for reservations on the first and last sailings of the day.

In 2002, 25% of the vehicle deck was designated as "Priority Passage", leaving 75% of the ship for the "first-come, first-served" clientele, who often arrive up to four hours in advance of departures to ensure their position on the ferry.

With the introduction of Priority Passage, OSTC now has a full selection of travel options; premium reservation service for premium departure times, full reservations for the first and last sailing of the day, and space available for all passengers who do not choose to pay the additional reservation fee or do not wish to sail at 7:00 a.m. or 8:00 p.m. from Tobermory.

RESERVATIONS & TOURISM INFORMATION CENTRE

The Ministry of Northern Development and Mines supported the purchase, renovation, and expansion of a building locally referred to as the "Springmount Tourism Information Building", for the relocation of OSTC administrative, reservations' and customer services' offices.

Well-located on the highway route at the base of the Bruce Peninsula, the Reservations' and Tourism Information Centre continues to provide regional and Manitoulin Island tourism information as well as a highway rest stop for ferry service customers and all tourists visiting the area. The Ministry provided $381,000 of capital funds for the project to complete the major renovation and construction work during 2002. Additional landscaping and appropriate signage for the building have been planned for 2003/04 and 2004/05 implementation.

AT THE TERMINAL

"A very pleasant welcome at 5:15 a.m. - cheerful and alert." - Chi-Cheemaun passenger, 2002

Customers, arriving with reservations for the 7:00 a.m. departure from Tobermory, must arrive no later than 6:00 a.m. to confirm their reservation on the ferry. Terminal staff begin their day at 5:00 a.m., marshalling the vehicles that have arrived during the night into the loading lot, opening up the Terminal building and washrooms, and providing the morning's load plans to the ship's Officers.

"We couldn't believe all those vehicles fit inside. Good job!" - Chi-Cheemaun passenger, 2002

The M.S. Chi-Cheemaun completes four round trips per day between the Bruce Peninsula and Manitoulin Island during the peak operating season. The daily schedule allows for a brief 20-minute turn-around between trips. Operating at over 80% of capacity in the summer months, the ship unloads up to 140 vehicles and reloads another 140 vehicles in less than 20 minutes. Community residents and tourists flock to the dock every four hours during the day to watch the loading process unfold with surgical precision.

RELIABILITY

"Shipshape and professionally run." - *M.S. Chi-Cheemaun passenger, 2002*

OSTC operates the only vehicle/passenger ferry service on the route dividing Lake Huron and the Georgian Bay between Tobermory and Manitoulin Island. It is a single, ship service. If the ship suffers a mechanical failure, it could be taken out of service briefly for a single trip or for as long as the remainder of the operating season. There is no back-up vessel suitable to replace the M.S. Chi-Cheemuan. The alternative to using the ferry is a five-hour drive around Georgian Bay. Reliability is essential to maintaining good customer service and confidence in the ferry operation.

OSTC staff carefully monitor the mechanical performance of the vessel during the operating period for signs of impending failures in the 28-year-old machinery. During the winter of 2002/03, major mechanical work included the teardown and inspection of major mechanical components, and the replacement of any parts that showed signs of becoming problematic. The Corporation also brought forward a plan to replace the propulsion plant of the vessel prior to the 2005 operating season to extend the operational viability of the ship 25 years into the future.

Capital upgrades to the vessel in 2002 also included the installation of a new drinking water purification system.

A total of 10 hours and 3 minutes of mechanical delays were experienced during the 2002 operating season, which translates into an on-time performance rate of 99.5% for the year.

"We have been using the ferry for a very long time. It seems to be improving every year." - *M.S. Chi-Cheemaun passenger, 2002*

While the OSTC operation gives the perception that safety and customer service are of equal importance in the delivery of the ferry service, the fact is that the level of safety the Corporation implements also defines the level of customer service the operation is able to deliver. When safety is the first priority, customer service as perceived by the customer, may be negatively impacted as in the case of cancelled ferry departures due to adverse weather. OSTC has found that careful attention to detail and appropriate communication with the passengers is paramount to the success of both endeavours.

SAFETY ON-BOARD

In 2002, safety of operations continued to be the Corporation's highest priority. OSTC voluntarily implemented the International Safety Management Code in 1997, and has maintained certification in good standing with Lloyd's Register every year since. Lloyd's is the classification society engaged to audit the OSTC's safety procedures and outcomes.

Ships and facilities owned or operated by OSTC are maintained to standards that often exceed regulations issued by Transport Canada and other responsible regulators. Highly-maintained ships do not operate in the absence of highly-trained and qualified personnel. During 2002, OSTC followed its already established training schedule designed to improve and upgrade the certification and qualification of its staff onshore and crewmembers on-board ships, training personnel in the areas of Marine Transportation of Dangerous Goods, Workplace Hazardous

SAFETY ON-BOARD

Materials Information Systems, Marine Occupational Health and Safety, Marine First Aid, CPR, Oxygen Administration, Fork-lift Operation, Bridge Resource Management, and Engine Room Resource Management.

OSTC annually employs an Officer Cadet from the Georgian College Great Lakes Navigation and Engineering Officer Training Program and did so again in 2002. The Cadet works on-board the M.S. *Chi-Cheemaun*, under the supervision of OSTC Officers. Time worked aboard the ship is counted toward the Cadet's sea time requirement necessary before writing Officer examination papers.

OSTC, along with all Canadian shipping companies, will be faced with a shortage of qualified Officers over the next decade, and therefore has designed its own training programs to support promotion from within OSTC's ranks by providing training opportunities and participation in the College Cadet program.

"Do not let a little bad weather stop you.*"

Often frustrating for the passengers who are delayed by the cancellation, it is OSTC's practice to not take the ship away from the dock in weather that has a high probability of causing injury to passengers and crew or damage to the vehicles and ship.

Severe weather forced the cancellation of four sailing departures out of a total of 1,010 departures scheduled for the 2002 operating season; less than one-half of a percent.

"Should be able to return to your vehicle during the crossing.*"

Transport Canada regulations prohibit passengers from remaining on the vehicle deck while the ferry is in operation. Regulations also prohibit the Company from locking the doors between the vehicle deck and passenger areas to prevent passengers from returning to their vehicles. A recent Transportation Safety Board investigation into a fire on the vehicle deck of a Canadian ferry reported that all ferry operators have expressed some level of difficulty associated with keeping passengers off the vehicle decks during operations.

Re-entry to the vehicle deck during the ferry crossing continues to be an important but difficult regulation to enforce despite ferry operators' efforts to curb some passenger's non-compliant activity.

As a result of this and other safety concerns that arise from passengers' unawareness of Marine safety regulations, OSTC has annually increased the intensity of the Corporation's safety education program for passengers.

In 2002, OSTC specifically targeted children for ferry safety education programming, as it is well-known that where children are exposed to the concepts of safety and environmental protection, they are persistent in encouraging their parents and other adults to also become compliant with the rules. Over 50% of the traffic carried on the M.S. *Chi-Cheemaun* is made up of families with children.

* *M.S. Chi-Cheemaun passengers, 2002*

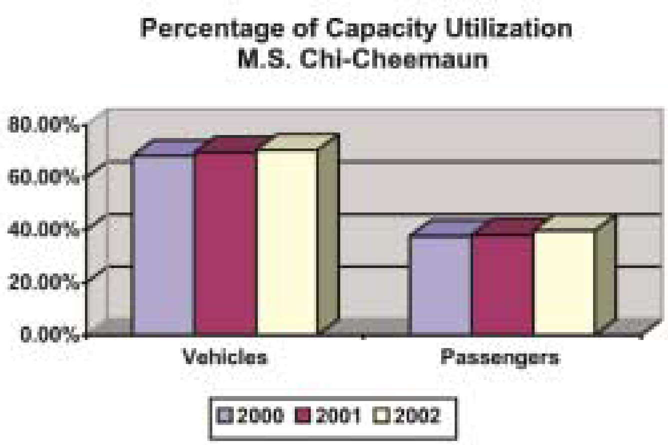
In the late 1990's, OSTC began hosting school group tours on the *M.S. Chi-Cheemaun* while the vessel was docked for the winter in the Owen Sound Harbour. By 2002/03, OSTC had partnered with the Marine and Rail Museum to promote the use of ship tours with museum visits as a method of supplementing existing classroom curriculum where students were studying the physical concept of buoyancy.

School tours have provided the children and their teachers an opportunity to visit areas of the ship such as the engine room that are off-limits to the public while the ship is in operation. The tours have given OSTC the opportunity to provide safety instruction and information on the ship's safety features and procedures directly to the children. Younger passengers, who had been on a tour and then travelled on the vessel during 2002, were often observed to be showing their parents the location of the inflatable life rafts on the ship.

TRAFFIC ON-BOARD

The period 2002/03 proved to be the third consecutive year of increased traffic on the service, despite management's expectation that higher fuel costs would have a negative impact on vessel utilization.

Marginal growth was expected for the peak summer months, although the ship already operates close to capacity in that period. Year 2002 showed continued growth also in the spring and fall, due in part to unseasonably good weather both early and late in the season.



In the early 1980's, two interior retractable ramps were added to the vehicle deck of the ferry to increase the vessel's total vehicle capacity per load. Constructed to accommodate the more popular compact cars of the 1980's, the ramps are almost unusable in 2002.

By 2002, the popularity of larger vehicles, such as vans and sport utility trucks vehicles too large to be loaded onto the retractable ramps, has caused the ship to be operated "full" at only 80% of its actual measured load capacity.

Trends established from 2000 through 2002 indicate that the larger vehicles will continue to be the automobile of choice, despite rising and unpredictable fuel prices. The three-year traffic analysis demonstrates little fluctuation in the types of vehicles being carried on the ship. Large automobiles occupy most of the vehicle deck space at 42% of total traffic, followed by vans at 22%, and pick-up trucks/sport utility vehicles at 20%.

CUSTOMER SERVICE ON-BOARD

"We didn't realize the Sunset Dinner Cruise booked up so fast."*

Sunset Dinner Cruising was developed by M.S. Chi-Cheemaun crew in 1997, and is offered on the regularly scheduled evening ferry departures throughout the season.

Dinner Cruises are limited to a single seating of 90 persons per trip, and are booked to capacity weeks in advance. Expansion opportunities are only possible by including additional evenings to the Dinner Cruise schedule.

During 2002, the Sunset Dinner Cruise was expanded from three evenings per week from Tobermory to include two evenings per week, with departures from South Baymouth.

Since Dinner Cruises are held on regularly scheduled ferry trips and do not require any additional staff, there is no cost associated with making the two extra night's service available for another season to determine if growth is possible, and the extra nights remain viable.

"Great selection in the Boatique; nice to see "Made-in-Canada" garments."*

Souvenir sales on the M.S. Chi-Cheemaun generated $262,000 in revenue for the 2002 season. Wherever possible, and always in the case of the more expensive items for sale, the Boatique buys Canadian-manufactured products for resale. The shop also actively promotes the sale of quality work from area artisans.

The profit margin in the Chi-Cheemaun Boatique is measured at 100%, thanks in part to the Transport Canada crewing regulations. Those regulations determine the minimum crew complement that must be carried on the M.S. Chi-Cheemaun to be prepared for any potential emergency.

All Boatique, Cafeteria, and Lounge Service staff are included in the required crew complement, and are fully trained and certified in Marine Emergency Duties techniques and skills. Instead of simply "being" on board, in wait for the emergency that the Corporation takes great precautions to prevent from occurring, on-board services' staff are fully engaged with the operation and supervision of the very popular on-board gift shop, food service area, and licenced lounge.

** M.S. Chi-Cheemaun passengers, 2002*

PASSENGER COMFORTS ON-BOARD

While not covered in either the specific objectives or performance measures established by the Corporation, the following section deals with general topics raised by our customers - topics that OSTC acknowledges as areas where change needs to take place in the near future, to improve the level of comfort afforded our passengers while in our care.

> *"We are so thankful for the elevator and the on-board wheelchair.*"*

The M.S. Chi-Cheemaun was equipped in 1974 with an elevator that provides access from the vehicle deck to the two interior passenger levels and Officer's Deck. Not designed for high usage by passengers, the elevator is currently used multiple times per trip, to assist physically disabled passengers and passengers in wheelchairs.

It is unfortunate and inconvenient for passengers that the wheelchairs arriving at the vessel in 2002 are too large to fit in the elevator. Today's wheelchairs are very large, motorized, and often equipped with necessary auxiliary equipment such as oxygen tanks and communications' devices. Wheelchairs that do not fit in the elevator must be left behind on the vehicle deck.

OSTC takes great care with our passengers who require elevator service, starting with preferential parking on the vehicle deck, in close proximity to the elevator. OSTC also provides any passenger who requires it, the use of a wheelchair that does fit inside the elevator, and if requested, the personal assistance of a crew member for the duration of the voyage.

Increasing the size of the elevator is not a potential solution, given the structural restrictions of the ship, and the fixed location of the elevator. OSTC is investigating all possible alternatives, in order to resolve the inconvenience to the passengers, as quickly as possible.

> *"Smoking should be allowed somewhere inside the ship.*"*

Since 1996, smoking has been restricted to the exterior decks of the ship, but restriction has been difficult to enforce without the support of applicable legislation. Late in 2002, County bylaws applicable to the vessel while in port were passed, and has made the prohibition of smoking, within the enclosed spaces of the ship, enforceable by law.

Non-smoking passengers continue to voice their complaints about passenger-smoking, even though it is kept outside; smoking passengers continue to complain that they are unable to smoke indoors, and are often subjected to the harsh environment while smoking on the outside decks.

OSTC expects that while smoking will continue to be allowed on the exterior decks of the vessel, the public demand for protected smoking areas will have diminished by 2005. OSTC has made no plans to provide exterior protected smoking areas for customers on the two-hour crossing.

* *M.S. Chi-Cheemaun passengers, 2002*

"I lost my wallet on-board during a trip and the staff were diligent in finding it and returning it." - M.S. Chi-Cheemaun passenger, 2002

M.S. Chi-Cheemaun crew perform a sweep of the ship after every passenger has unloaded, and before the next trip's passengers begin to embark, primarily to ensure that no passenger has remained on-board inadvertently, and it is in the course of their normal cleaning duties. It is at this time, that most "lost" items are found. The majority of items are recognized as lost by their owners approximately one hour after they have left the ship. A quick phone call to the ship locates the lost item, and the customer is reassured that the item will be mailed to their home or alternate address if required. In some cases, lost items are sent via courier to the owner, as would be the case with a wallet or other expensive personal items.

Any lost item that does not find its owner is stored in the OSTC office through the winter and then turned over to Donation Stores at the beginning of the next operating season.

"Wooden deck chairs and benches were great." - M.S. Chi-Cheemaun passenger, 2002

Working on their free time during the spring evenings of 2001 and 2002, M.S. Chi-Cheemaun Officers and crew built several Adirondack-styled deck chairs for the outside decks of the vessel. The chairs were so overwhelmingly popular with passengers that when the plastic bucket seating on the stern mezzanine deck finally succumbed to the ultraviolet rays of the sun, the deck crew replaced the seating by building wooden benches with sloped backs.

The cost of materials for the wooden seating was less than one-tenth the quoted price for replacement plastic seats. More popular and comfortable for the passengers, more pleasing visually on the ship, and easy to maintain, the wooden seating was the more efficient and economical choice.

"No paper towel in the washroom to dry my hands." - M.S. Chi-Cheemaun passenger, 2002

OSTC has equipped all of the washroom facilities in the Terminal buildings, and on the ship, with forced air hand dryers. Failure to provide paper towels is intentional and responds to concerns for conservation as well as minimizing the occurrence of plumbing blockages caused by paper towels in sink drains, and having been flushed down the vacuum toilets on the ship.

OSTC has maintained minimal use of disposable products such as paper towels, paper and plastic cups, and in 2002, introduced limited recycling on-board the ship, and composting at the Tobermory Terminal building.

In 2002, OSTC replaced one-half of the vacuum toilet system on the *M.S. Chi-Cheemaun*, the second-half having been scheduled for replacement in 2003/04. The vacuum toilet system was also designed with conservation in mind. It requires minimal water to function, and therefore, significantly reduces the amount of effluent to be pumped off the ship into a sanitary septic system for treatment. The system's conservative design also makes it very susceptible to blockage.

The system, installed in 2002, relocates the vacuum pump so that it is external to the main pipe, as opposed to the older system where the pump was inside the main pipe. This mechanical change has reduced the opportunity for the inconvenience of a total system shutdown on the ship, while an individual vacuum pump is repaired following a clog.

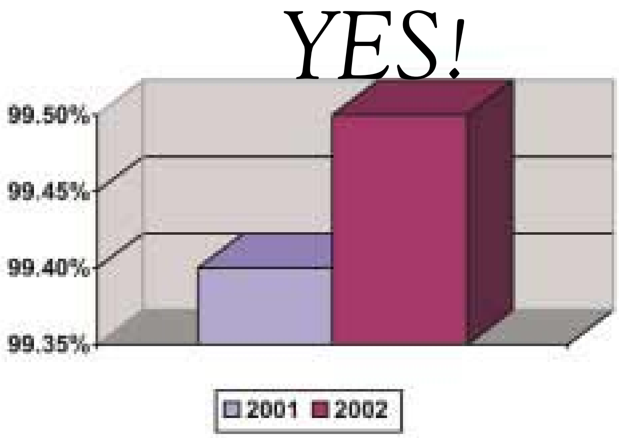
Despite this improvement, OSTC will not be supplying paper towels in the washrooms.

THE LAST WORD

On an operational and financial basis, the Corporation met its strategic goals and objectives, surpassed the 2002 performance measures, and experienced a positive financial outcome, while still managing the administrative changes that occurred within the first year of becoming an Operational Enterprise Agency of the Province of Ontario.

The question that remains is one that only the 2002 customers, who used the ferry service, are able to respond to – did the ferry service meet their expectations?

Surveyed customers were asked if they would recommend the ferry trip to their friends and relatives. A resounding 99.5% of surveyed customers responded "Yes", up one-tenth of a percentile from 2001, when customer satisfaction levels were measured at 99.4%.



The Owen Sound Transportation Company Limited

FINANCIAL STATEMENTS

For the Year Ended March 31, 2003

Office of the Provincial
Auditor of Ontario

AUDITOR'S REPORT

To The Owen Sound Transportation Company Limited and to the Minister of Northern Development and Mines

I have audited the balance sheet of The Owen Sound Transportation Company Limited as at March 31, 2003 and the statements of investment by the Province of Ontario, operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

J.R. McCarter, CA
Assistant Provincial Auditor
Office of the Provincial Auditor of Ontario

Toronto, Ontario
June 20, 2003

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 generally accepted accounting principles. The preparation of financial statements necessarily involved the use of management's judgment and best estimates, particularly when transactions affecting the current accounting period cannot be determined with certainty until future periods. All financial information in the annual report is consistent with the 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 and have been approved by its Governing Board of Directors. In addition, the financial statements have been audited by the Ontario Provincial Auditor, whose report follows.

Jim Fregeau, CA Manager Finance & Administration	Susan Schrempf General Manager	Roy Hains President

Owen Sound, ON
October 23, 2003

BALANCE SHEET

March 31	2003
ASSETS	
CURRENT	
Cash and Cash equivalents	$ 1,066,131
Accounts receivable (Note 4c)	2,051,983
Inventory	60,772
Prepaid expenses	124,792
	3,303,678
Investment in capital assets (Note 1)	1,645,565
	$ 4,949,243
LIABILITIES AND PROVINCE OF ONTARIO EQUITY	
CURRENT	
Accounts payable and accrued liabilities	$ 1,189,975
Deferred subsidies (Note 4c)	1,689,872
Workers' compensation obligations (Note 3c)	153,023
	3,032,870
CONTINGENCIES/COMMITMENTS (Note 5)	
PROVINCE OF ONTARIO EQUITY	
Investment by the Province of Ontario	1,633,050
Retained earnings	283,323
	1,916,373
	$ 4,949,243

Approved on behalf of the Company *Chair* *President*

For the year ended March 31	2003
BALANCE, beginning of year	
Net investment in capital assets	$ 1,373,456
Net investment in share capital (1 common share)	34,990
	1,408,446
NET CHANGES DURING THE YEAR	
Amortization (note 1)	(355,562)
Capital Funding – MNDM	580,166
	224,604
BALANCE, end of year	
Net investment in capital assets	1,598,060
Net investment in share capital (1 common share)	34,990
	$ 1,633,050

The accompanying summary of significant Accounting policies and notes are an integral part of these financial statements.

STATEMENT OF OPERATIONS

For the year ended March 31	Budget	2003
Revenues		
Vehicles	$ 2,223,018	**$ 2,565,521**
Passenger revenue	2,286,702	**2,451,233**
Cafeteria	668,500	**642,000**
Tuck and terminal gift shops	260,500	**278,469**
Ministry of Northern Development & Mines subsidy	780,000	**780,000**
Pelee Island Ferry Service management fee (Notes 4a and 6)	250,000	**355,396**
Interest and Other	186,450	**353,101**
	6,655,170	**7,425,720**
Expenses		
Salaries and wages	3,052,640	**3,195,599**
General and administrative expenses (Note 1)	1,187,456	**1,349,783**
Services	602,917	**635,863**
Employee Benefits	619,524	**617,646**
Fuel	661,500	**569,534**
Repairs and maintenance	265,045	**546,098**
Utilities	152,300	**157,251**
Tools and operating supplies	114,000	**121,587**
	6,655,382	**7,193,361**
Income From Operations	$ (212)	$ 232,359

Retained earnings, beginning of year	$ 50,964
Income from operations	232,359
Retained earnings, end of year	$ 283,323

Cash Provided By (used in)	
Operating Activities	
Income from operations	$ 232,359
Items not affecting cash	
Amortization (net of contributed surplus amortization)	6,151
	238,510
Changes In Non-Cash Working Capital Balances	
Accounts receivable	(2,051,983)
Inventory	(29,965)
Prepaid expenses	(26,652)
Accounts payable and accrued liabilities	1,189,975
Deferred revenue	1,689,872
	1,009,757
Investing And Financing Activities	
Purchase of capital assets	(524,292)
Capital funding – MNDM	580,166
	55,874
Change in cash and cash equivalents during the year	1,065,631
Cash and equivalents, beginning of year	500
Cash and equivalents, end of year	$ 1,066,131

The accompanying summary of significant Accounting policies and notes are an integral part of these financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

March 31, 2003

Nature Of Business

The Owen Sound Transportation Company Limited (OSTC), a business enterprise of the Province of Ontario, owns and operates a seasonal vehicle and passenger ferry, the M.S. Chi-Cheemaun, from Tobermory to Manitoulin 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.

Prior to April 1, 2002, the Company's financial position and results of operations were reported in the financial statements of the Ontario Northland Transportation Commission (ONTC), its parent Company. On this date, 100% of the issued and outstanding common shares (1 common share) of the OSTC were transferred to the Minister of Northern Development and Mines (MNDM).

Employee Future Benefits

The OSTC's eligible employees continue to participate in the defined benefit pension plan of the ONTC. In addition, eligible employees are also entitled to non-pension post retirement benefits, such as group life, health care, and long-term disability. Until such time that the OSTC sponsors its own pension plan, and non-pension post retirement benefits, the impact on its financials will be limited to the amount of contributions made to these benefit plans (see Note 3).

Workers Compensation Benefits

The OSTC is a Schedule 2 employer with respect to workers' compensation benefits. As such, the company recognizes its obligation for these future benefits on an accrual basis. The estimated future benefits are determined using actuarial calculations, as provided by the Workplace Safety & Insurance Board, on an annual basis (December 31 of each year).

Revenue Recognition Transportation revenues are generally recognized on the date tickets are sold. Other revenues are recognized in the period they are earned.

Inventory All materials and supplies are recorded at the lower of average cost and net realizable value.

Cash And Cash Equivalents Cash, and cash equivalents include cash-on-hand, balances with banks, and short-term deposits with original maturities of three months or less.

Investment In Capital Assets And Amortization

Capital assets are stated at acquisition cost. 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:

Marine vessels	30 years	Vehicles	3 years
Buildings	50 years	Equipment and other	5-10 years

The Province of Ontario reimburses the OSTC for the cost of certain capital assets purchased for use in operations designated as non-commercial by the Province. The OSTC records these assets at their original cost together with an offsetting credit to Net Investment in Capital Assets (Province of Ontario). Annual amortization on these capital assets is recorded as a reduction of the Net Investment in Capital Assets.

Capital assets of the Pelee Island service are not recorded in the books of the OSTC, but instead are accounted for by the Ministry of Transportation. Any costs incurred by the OSTC with regards to capital expenditures are recovered from the Ministry and have no impact on these financials.

Income Taxes

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

Accounting Estimates

Preparation of the financial statements, in conformity with Canadian generally accepted accounting principles, 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. Actual results could differ from those estimated.

Financial Instruments

The OSTC's financial instruments consist of cash, accounts receivable, and accounts payable. Unless otherwise noted, it is management's opinion that the OSTC is not exposed to significant interest, currency or credit risks arising from these financial instruments.

March 31, 2003

1. Investment in Capital Assets

	Cost	Accumulated Amortization	Net Book Value 2003
Chi-Cheemaun Ferry	$ 9,975,672	$ 8,728,643	$ 1,247,029
Equipment and other	317,368	287,573	29,795
Building and improvements	357,780	65,139	292,641
Land	76,100	-	76,100
	$ 10,726,920	$ 9,081,355	$ 1,645,565

Included in general and administrative expenses is amortization expense in the amount of $6,151. The total amortization for the year is $361,713 with $355,562 being applied to investment by the Province of Ontario in accordance with the OSTC's accounting policy.

2. Operating Loan Credit Facility

The 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, 2003, there were no draws outstanding under this credit facility.

3. Employee Future Benefit

a. Pension

Expenses for employee pensions are recognized as the contributions are paid in accordance with the CICA handbook recommendations for multi-employer plans. During fiscal 2002/03, no amounts were paid as employer contributions to the plan because of a contribution holiday.

b. Non-pension Benefits

Non-pension post retirement benefits are recognized as the payments are made and not on an accrual basis, because the OSTC has yet to establish its own plan. Currently, the OSTC employees are still part of the ONTC plan for the provision of non-pension post-retirement benefits, and as such, no liability exists for the OSTC. The ONTC invoices the OSTC monthly for these types of costs, as agreed on an interim basis. Once the OSTC establishes its own plan for these benefits, it will adopt the accrual method for these future costs, taking into account the historical liability previously assumed by the ONTC, once this has been negotiated between the two parties. The total amount paid during the year was $90,200.

c. Workers Compensation Benefits

These benefits are recognized on an accrual basis whereby the obligation has been established for estimated future costs, using actuarially based calculations provided by the Workplace Safety Insurance Board (WSIB), and payments are then applied to this obligation as incurred. The obligation of the OSTC, as disclosed in the most recent valuation done (December 31, 2002) by the WSIB, was $153,023.

NOTES TO FINANCIAL STATEMENTS

March 31, 2003

4. Government Reimbursement / Deferred Subsidies

A. Ministry of Transportation

Under the terms of the Pelee Island Transportation Service Operating Agreement, dated March 16, 2002, the OSTC receives operating subsidies from the Ministry of Transportation to operate a 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. This agreement is effective until March 2005, with an automatic renewal for a further three years, to March 2008, unless terminated. The agreement calls for the Province of Ontario, through the Ministry of Transportation, to pay any and all operating and capital expenses relating to the provision of the above noted services, and in addition, the Ministry will pay the OSTC a management fee equivalent to 10% of the total actual annual operating expenses, up to a maximum of $325,000 (increasing to $350,000 in the second three-year period to March 2008).

B. Ministry Of Northern Development And Mines

Under the terms of a Memorandum of Understanding with the Ministry of Northern Development and Mines, the OSTC receives both operational and capital funding from the Province of Ontario. The Operational subsidies are received for the Owen Sound operation based on an approved operating plan, and are cash-flowed to the OSTC on a quarterly basis. These amounts totalled $780,000 in fiscal 2003. The capital subsidies are paid to OSTC on submission of invoices for capital items consistent with its approved capital plan. These amounts totalled $580,166 in fiscal 2003.

C. Deferred Subsidies

Deferred Subsidies are a combination of Ministry of Transportation monthly subsidies received in advance, and funds committed to reimburse OSTC for expenditures made or provided for future operating expenditures or specified capital projects. Included in accounts receivable at year-end, is $1,948,335 for these types of costs, and the 2002/03 management fee of $355,396.

5. Contingencies/Commitments

There have been a few statements of claim issued against the OSTC, in the normal course of business, over the past number of years. Damages, if any, cannot be estimated at this time, and in any event, the OSTC is of the opinion that these claims would be unfounded or covered by insurance. Should any loss result, it would be charged to operations when the amount is ascertained.

6. Pelee Island Ferry Service Management Fee

During the year, in accordance with its Pelee Transportation Service Operating Agreement, the OSTC incurred operating expenses in the amount of $4,484,041 and generated $1,415,358 in passenger, and other revenues. The Ministry of Transportation subsidizes the difference being $3,424,079, which includes a $355,396 management fee. Only the management fee is presented in the Statement of Operations.

In addition, the OSTC incurred capital expenditures in the amount of $3,089,589, which were fully reimbursed by the Ministry of Transportation.

The capital expenditures and operating expenses and revenues do not impact these financial statements as ownership vests with the Ministry of Transportation.

7. Comparative Figures

Comparative figures of the OSTC were reported on a calendar year basis and consolidated in the audited financial statements of the ONTC. Accordingly, no comparative figures have been presented.

8. Economic Dependence

The OSTC is dependent on the continuing subsidy from the Province of Ontario to carry on its operations.