Owen Sound Transportation Company Limited

2003/2004

Annual Report

Table Of Contents

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.

Contact:
The Owen Sound Transportation Company Limited
R.R. #5, Owen Sound, ON N4K 5N7

Phone: 519-376-8740
Fax: 519-376-6384

www.ontarioferries.com

Year-In-Review

Established in 1921 as a privately owned and operated Corporation, the OSTC had been a wholly owned subsidiary of the Ontario Northland Transportation Commission from 1974 through March 31, 2002. In 2001, the Ministry of Northern Development and Mines mandated the implementation of a Service Improvement Plan for the ONTC. OSTC was separated from the ONTC and established as a stand-alone Operational Enterprise Agency of the Province of Ontario.

A 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.

Traffic and On-Time Performance:

2003/04 was an excellent year for on-time performance. Having lost only 20 minutes to mechanical delays over the season the *M.S. Chi-Cheemaun's* on-time performance was rated at 99.98%.

Unfavourable weather negatively affected traffic levels carried throughout the operating season. The *M.S. Chi-Cheemaun* carried 226,861 passengers and 86,339 vehicles representing a decrease of 3% and 2% in passengers and vehicles carried per crossing respectively. The vessel operated 994 one-way crossings in 2003 versus 1008 in 2002. Ten one-way departures were cancelled due to adverse weather conditions in 2003.

On a favourable note, the massive electricity blackout that struck on August 14, 2003 affecting Eastern Canada and the United States had a negligible effect on the ferry operations. Contingency plans for the ferry service include manual operation of boarding ramps and ticketing systems. Emergency telephone systems were functional and well utilized. The ship was able to continue to operate as long as its fuel supply lasted. Passengers who were able to travel were desperate to get to cottages where they had running water and propane power for lighting and cooking. The only customers who cancelled travel plans were those who were unable to get across the USA/Canada border or, were unable to fuel their vehicles.

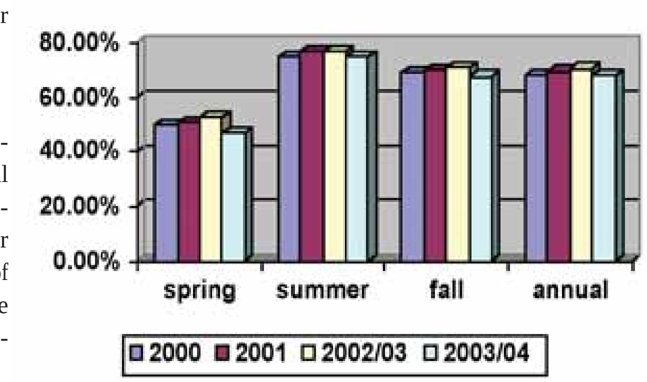
In keeping with reduced traffic levels, vehicle deck utilization rates decreased from an annual average of 70.51% in 2002 to 68.18% in 2003. Annual average passenger utilization rates also dropped to 38.04% from 39.35% in 2002.

"Priority Passage" reservations generated an additional $117,000 in revenue for the year. This special reservation service, introduced in 2002, provided for 25% of the vehicle deck on traditionally non-reservation departures to be used for Priority Passage reservations. Priority Passage customers were also permitted to arrive only 30 minutes in advance of their departure time instead of the 60 minute requirement for all other reservation holders.

Planned Capital Machinery Replacement:

The 30-year-old engines and generators on the *M.S. Chi-Cheemaun* are rapidly approaching the end of their useful life. During 2003, OSTC Board members and staff finalized the details of the planned mid-life machinery refit for the *M.S. Chi-Cheemaun*. Approved by the Ministry of Northern Development and Mines as part of the three year Capital Plan for the operation, the project is scheduled to begin in 2004/05 and be completed in 2006/07.

Vehicle Deck Utilization by Season





The project includes complete replacement of existing main engines and generators for which spare parts are no longer reliably available. Upon its completion, the project will give the vessel another 25 to 30 years useful service life at which time proper consideration of a replacement vessel will have been given. As a single ship operation, the business is dependent on uninterrupted service from the *M.S. Chi-Cheemaun*. Internal redundancy has been designed into the engine room through the machinery replacement project to enable the operation to achieve that high level of mechanical reliability. At the present time, mechanical reliability is the service's highest vulnerability and the area where all attention and resources will be focused over the next three years.

Pelee Island Transportation Service:

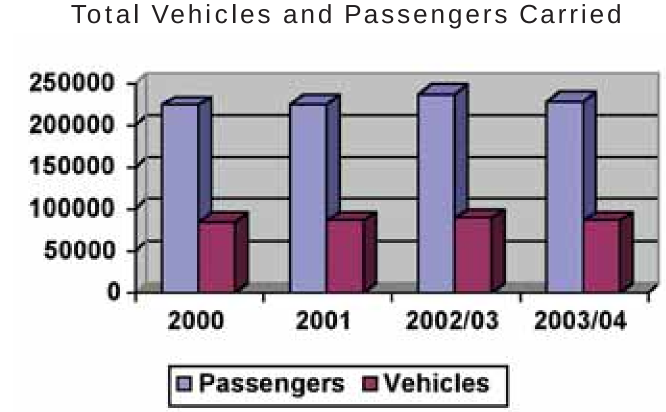
OSTC is contracted by the Ontario Ministry of Transportation (MTO) to operate the Pelee Island Transportation Service. The current contract expires on March 31, 2005 and includes the operation of a ferry service between the months of April and December. During the months of January, February and March, daily transportation between Pelee Island and Windsor, Ontario is provided through an air service contract, administered by the OSTC. The 2003/04 winter air service contract was awarded to Georgian Express, of Barrie, Ontario. Air service contracts are only awarded to companies who are certified by Transport Canada and, licensed by the Canadian Transportation Agency to operate passenger and freight flights.

On January 17, 2004, Georgian Express Flight 0126, crashed into Lake Erie shortly after departure from Pelee Island with 10 persons on board. All lives were lost. The search and recovery effort was completed by the Ontario Provincial Police Underwater Search and Recovery Unit and the Canadian Coast Guard on January 30, 2004.

Air transportation was reinstated immediately following the accident and then briefly interrupted while Transport Canada conducted an audit of the air service supplier. Georgian Express completed the 2003/04 winter air service scheduled at the end of March, 2004, as contracted.

The Transportation Safety Board has launched a full investigation into the Flight 0126 accident.

Total Vehicles and Passengers Carried



"The TSB is an independent agency that investigates marine, pipeline, railway and aviation transportation occurrences. Its sole aim is the advancement of transportation safety. It is not the function of the Board to assign fault or determine civil or criminal liability."

from www.tsb.gc.ca

OSTC is not directly involved in the investigation and is not considered a "stakeholder" by TSB with respect to receiving any information regarding the status of the investigation or its findings other than through public means. OSTC extends our deepest sympathy to the families who have lost loved ones in this accident.

MESSAGE FROM THE CHAIRMAN

The task of providing safe, efficient, and reliable ferry transportation to the traveling public between Tobermory and South Baymouth has again been successfully accomplished by the OSTC. The drop in traffic volume due to an unusually wet summer was compounded late in the season by extreme winds which resulted in the loss of several one-way crossings.

Minor delays, totaling only a matter of a few minutes, caused by mechanical problems attests to the capable professional and dedicated service of our engineering staff who successfully maintains a thirty year old ship. Approval of the repowering project, scheduled to take place over the next three years should significantly ease the task of achieving their high standards of safety and service.

The official opening of the Chi-Cheemaun Reservations and Tourism Information Centre in May, 2003 has provided our customers with better access to ferry reservations and tourism information. During the period of construction and expansion the reservation staff, the first point of contact for most of our customers, continued to satisfy the needs of the first time or frequent traveler with enthusiasm, courtesy, and satisfaction.

The performances by these diverse departments are but two of many examples of the excellent results achieved by the OSTC team this past year. On behalf of the Board of Directors, congratulations to the entire staff.

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

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

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 2003/04, 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.

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	2003/04	2002/03	2001	2000
Income per passenger (ticket and on-board sales)	$27.46	$26.40	$25.23	$24.02
Expense per passenger (operating only)	$31.27	$30.29	$32.13	$29.50
Percentage of operating expenses recovered from income	87.81%	87.18%	78.54%	81.41%
Retail Services Revenue per passenger	$4.78	$4.11	$3.77	$3.96
Advertising expense per passenger	$0.77	$0.67	$0.79	$0.63
Passengers carried	226,861	237,504	224,654	222,549
Utilization – passengers	38.04%	39.35%	38.21%	37.77%
Vehicles carried	86,339	89,645	85,603	84,763
Utilization – vehicles	68.18%	70.51%	69.51%	68.26%
Annual total # of departures	994	1,006	980	982
Average # of vehicles per departure	87	89	87	86
Average # of passengers per vehicle	2.63	2.65	2.62	2.63

Financial Highlights *(Year ended March 31, 2003)*	2003/04	2002/03	2001	2000
Operations:				
Commercial Revenues	$6,229,987	$6,290,324		
Operating Contract Revenues	$325,000	$355,396		
Total Revenue	$6,554,987	$6,645,720		
Operating Expenses	$7,084,477	$7,187,210		
Amortization	$10,333	$6,151		
Total Expense	$7,094,810	$7,193,361		
Loss before Provincial Funding	($539,823)	($547,641)		
Provincial Funding	$650,000	$780,000		
Net (loss) earnings	$110,177	$232,359		
Assets:				
Current	$1,846,837	$3,303,678		
Investment in Capital Assets	$1,976,033	$1,645,565		
Total Assets	$3,822,870	$4,949,243		

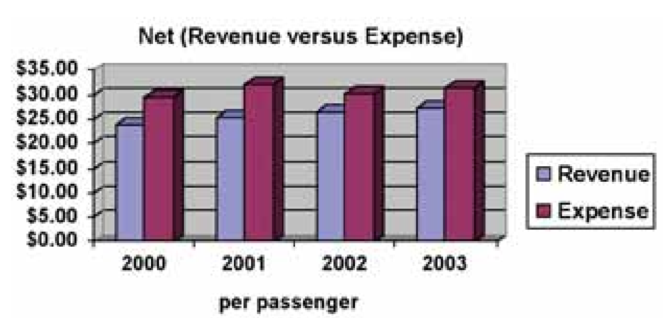
FINANCIAL PERFORMANCE

Traffic levels, though lower than that of 2002, marginally exceeded budget and resulted in a $30,987 favourable revenue variance. Total expenses were $79,190 lower than budgeted. The combined net variance was $110,177 better than budget. Using a "per passenger" unit of measure, OSTC recovered 87.81% of operating costs per passenger in 2003, a slight improvement over the 87.18% expense recovery experienced in 2002.

Repairs and Maintenance exceeded budget by $52,196 and occurred largely in the Engine Room of the *M.S. Chi-Cheemaun*. To some degree, this expense overrun reflects the need to replace the 30-year-old propulsion plant machinery. Anticipated fuel costs were budgeted 10% above actual cost in 2002. Actual fuel costs for 2003 were 12% higher than 2002 and exceeded budget by $16,808.

Saving of $128,656 in employee benefits offset the overruns in fuel, utilities, repair and maintenance and, general administrative expenses. The bulk of the savings was realized in budgeted pension plan contributions not spent. OSTC management employees participate in the ONTC Pension Plan and are subject to the rules and regulations of the ONTC plan. The impact of participation is both positive and negative. On the positive side, pension plan contributions were not paid out due to an ONTC Pension Plan contribution holiday which persisted through 2003/04.

On the negative side, ONTC business decisions regarding the ONTC Pension Plan can also affect OSTC's business. In 2003/04, ONTC offered an early retirement incentive package to all ONTC Pension Plan members for the purpose of reducing the total number of employees at ONTC. A number of OSTC management employees were also eligible and accepted the early retirement opportunity, vacating five key OSTC management positions. OSTC was forced to bypass normal succession planning to ensure the positions were filled before the vacancies created operational difficulties for the company. All decisions ONTC makes regarding the Pension Plan that will affect OSTC's business must be communicated by ONTC to OSTC for financial and business planning purposes.



In 2003/04, OSTC received operating subsidies of $650,000 and capital funds of $502,337 from the Province of Ontario through the Ministry of Northern Development and Mines. For the year ended March 31, 2004, the Corporation realized net earnings of $110,177.

Major capital projects in 2003/04 included renovations to public washroom facilities, replacement of fire and weather doors, exterior deck steelwork, replacement of passenger lounge seating, replacement of cafeteria and forward lounge carpeting, all on board the M.S. Chi-Cheemaun, Shore side capital projects included the completion of the OSTC Tourism Information and Ferry Reservations Building also housing the ferry service administrative offices, located at Springmount, outside of Owen Sound, Ontario.

MANAGEMENT DISCUSSION AND ANALYSIS

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 the first Annual Report for the Owen Sound Transportation Company, Management's discussion of operation and outcomes followed 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.

In this the second Annual Report, Management will discuss how the Corporation measured up against established benchmarks and, will discuss how the operation has improved or, failed to improve in areas that are of importance to our customers. This discussion will include favourable and unfavourable observations from 2003/04 customers as provided through the 2003 customer survey.

> *"There should be a draw from these questionnaires for a free crossing"*
>
> *- M.S. Chi-Cheemaun passenger, 2003*

Probably true. Perhaps the customer is correct – someone should have the opportunity to return, as OSTC's guest, to see and experience the changes that have taken place at the request of our customers.

OSTC spends a lot of time with the completed surveys and appreciates the time and thought taken by each and every customer who completed the survey. Completed surveys are initially reviewed by the Ferry Terminal staff who identify to OSTC Management the items that require immediate action. All surveys are read and reviewed for the second time during their compilation into the annual results document. Annual survey results are compared with results from prior years to identify areas where the operation has made improvements and, those areas where the company may have fallen short of the customers' expectations.

ADVERTISING

The 2003/04 survey established that 48% of *M.S. Chi-Cheemaun* users are repeat travelers 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. In 2003/04, OSTC continued development of information available via the internet with the changeover from www.chicheemaun.com to www.ontarioferries.com. The new website provides a gateway to information for all ferry services operated by the OSTC. Future development of the website includes an option for customers make ferry reservations directly from their home or office computers.

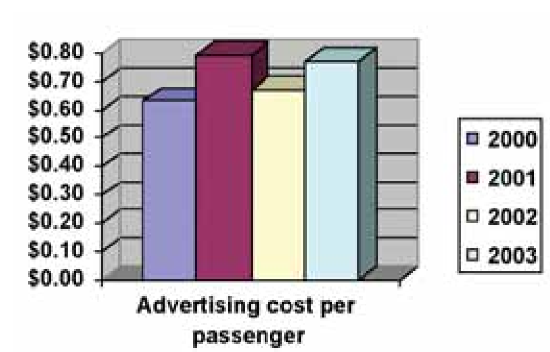
The remaining 52% of customers are first-time users of the ferry system who have received their information through direct advertising in the form of the brochure, information from travel agencies, magazine, newspaper and radio advertising as well as information provided through Tourism Information Centres. In 2003/04 as in previous years, OSTC continued to support and promote the production of comprehensive regional tourism booklets and other collaborative marketing programs led by regional tourism organizations and the communities of the Bruce Peninsula and Manitoulin Island.

OSTC spent $175,200 on marketing the ferry service during 2003/04. The Corporation is appreciative of the efforts made by regional tourism promoters who have continued to keep the ferry service in the public eye as a tourism attraction unique to this part of Ontario. The work of regional tourism organizations is vital to OSTC continuing to keep direct advertising costs to a minimum.

In 2003/04 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 2003/04, the total cost of advertising was $0.77 per passenger.



RESERVATIONS

60% of surveyed customers made a reservation in 2003, an increase from 58% in 2002 and 49% in 2001. The Reservations call centre is located in Owen Sound however; customers may also call directly to either of the Tobermory or South Baymouth Terminals for reservation services.

> *"Using the 1-800 number, I had to listen to the message before I got to speak to someone.*"*

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 need. 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 2003/04, the call centre received 95,744 calls of which 46,712 were for ferry reservations.

> *"The lady I spoke to on the phone was a bit abrupt and not friendly.*"*

All reservation agents are trained to be friendly and courteous to all customers, even those who are neither friendly nor courteous in return. Customers unfamiliar with the ferry service sometimes wait until the last minute to make a ferry reservation only to find that the ship is already fully reserved for their desired departure time. Agents advise customers of the next available sailing and often, customers do select the offered alternative including the "first-come, first-served" departures that are available daily. In a minority of cases where an agent is not able to give the customer a reservation for the departure time they have requested, customers become audibly frustrated. Any call that an agent is unable to complete due to a customer being completely unsatisfied is referred to a supervisor. The supervisor will take all the time necessary to discuss and attempt to resolve the problem with the customer, allowing the agent to be available to continue to respond to a steady stream of calls.

In response to those customers who do not wish to travel "first-come, first-served" or, on the first or last sailings of the day, OSTC added a new level of reservation service in 2002 called "Priority Passage". Priority Passage is a premium reservation service for the customers who want to determine exactly when they travel and are willing to pay a premium price for premium service.

> *"I find the Priority Passage concept to be an offensive money grab. I hate feeling coerced into it.*"*

Customers who choose to make a reservation using "Priority Passage" pay a non-refundable $20 reservation fee in addition to the fare charged for the vehicle and its occupants. The Priority Passage fee also allows the customer to arrive only 30 minutes in advance of the departure time instead of the 60 minute advance arrival required of all other reservation holders. It also guarantees assured loading of their vehicle on a "first-come, first-served" sailing.

* *M.S. Chi-Cheemaun passengers, 2003*

In 2003, only 30% of the vehicle deck was designated for Priority Passage, leaving 70% 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 sailings 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 7:00am or 8:00pm from Tobermory.

In all cases, the choice between purchasing a Priority Passage reservation, a standard reservation, or traveling stand-by, is made by the customer.

AT THE TERMINAL

"(We) were happy the washrooms were open at 4:30am."

"Your staff is wonderful. They take the time to talk to you."

Customers arriving with reservations for the 7:00am departure from Tobermory must arrive no later than 6:00am to confirm their reservation on the ferry. Terminal staff begins their day at 5:00am, 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 Officers.

"Very well done, professional, very organized in loading and unloading vehicles."

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 congregate at the ferry docks every four hours during the day to watch the loading process unfold.

RELIABILITY

"Congratulations on an extremely well run operation."

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 out of service for a brief as a single trip or, as long as the remainder of the operating season. There is no back-up vessel suitable or available to replace the *M.S. Chi-Cheemuan*. The alternative to using the ferry is a five-hour drive around the Georgian Bay. Reliability is essential to maintaining good customer service and confidence in the ferry operation.

OSTC staff carefully monitors the mechanical performance of the vessel during the operating period for signs of impending failures in the 30-year-old machinery. During the winter of 2003/04, major mechanical work included the teardown and inspection of major mechanical components and the replacement of any items that showed signs of becoming problematic. The Corporation also received approval to begin replacement of the vessel's propulsion plant beginning in 2004/05. Replacement of the ship's propulsion machinery will extend the life of the ship 25 to 30 years into the future.

On-time performance was measured at 99.98% for the year, the ship having been delayed by a total of 20 minutes over the entire 2003 operating season due to a single minor mechanical issue.

"Wouldn't want to be without the ferry service."

The *M.S. Chi-Cheemaun* ferry continued to operate through the massive power black-out of August 14, 2003, the effects of which lingered through the end of August and into September. The ferry was one of the only services customers could consider to be "reliable" during that period. Manual systems for shore operations enabled passengers to continue to board and disembark from the vessel which itself was completely self-sufficient for as long as its fuel supply lasted. By continuing to operate the ship, passengers were able to get to their campsites and cottages where alternative power sources were available.

SAFETY ON BOARD

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 to the passengers is paramount to the success of both endeavors.

In 2003/04 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




SAFETY ON-BOARD

trained and qualified personnel. During 2003/04, OSTC followed its already established training schedule designed to improve and upgrade the certification and qualification of its staff on shore and crewmembers on board ships, training personnel in the areas of *Marine Transportation of Dangerous Goods*, *Workplace Hazardous 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 also employs Officer Cadets from the Georgian College Great Lakes Navigation and Engineering Officer Training Program. The Cadets work on board the M.S. Chi-Cheemaun, under the supervision of OSTC Officers. Time worked aboard the ship is counted toward the Cadets' sea time requirement necessary before writing Officer examination papers. Two Cadet Officers in Training were employed by the Corporation in 2003/04.

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.

> *"I was on the boat last October when it turned around. The crew was excellent.**"

Often frustrating for the passengers who are delayed by weather cancellations, 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.

The ship was caught out in extreme weather in the middle of a two-hour crossing in October, 2003. The crew determined that the safest port of refuge was the same port they had departed from and returned to dock. Once the passengers and vehicles were safely disembarked, the crew took the ship to a safe anchorage for the night to prevent it from being damaged at the wharf.

Severe weather forced the cancellation of 10 sailing departures from of a total of 1,004 scheduled for the 2003 operating season.

> *"Please tell us ahead of time that we can't return to the car.**"

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. In the event that a customer may have left required medication or other items necessary to have on their person during the ferry crossing, the customer is escorted to and from the vehicle deck by a crew member. Repeat passengers are knowledgeable of this regulation however; OSTC needs to do more to ensure that first-time passengers have the information prior to boarding the ship.

* *M.S. Chi-Cheemaun passengers, 2003*

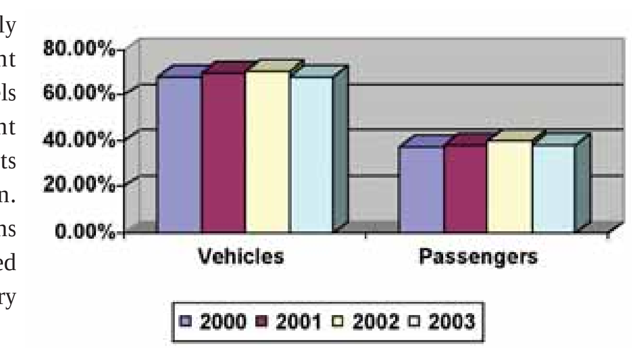
During the off-season when the ferry is not in operation, OSTC specifically targets children for ferry safety education programming. It is well known that where children are exposed to the concepts of safety and environmental protection, they are persistent in encouraging their parents and other adults 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.

In 2003/04, OSTC continued a partnership begun in 2002/03 the Owen Sound Marine and Rail Museum to promote the combination of ship tours with school group museum visits. This provided an opportunity to supplement 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.

TRAFFIC ON BOARD

Percentage of Capacity Utilization
M.S. Chi-Cheemaun



Following three successive years of marginally increased traffic levels, 2003/04 experienced a slight decrease in traffic, more comparable to traffic levels experienced in 2000. The drop in traffic is consistent with Management's expectation that rising fuel costs would have a negative impact on vessel utilization. The decrease is also consistent with traffic patterns resulting from bad weather. 2003 will be remembered in Ontario as the summer during which it rained every weekend.

The August 14, 2003 power black-out over the Eastern half of North America had no measurable impact on *M.S. Chi-Cheemaun traffic*.

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. Designed to accommodate the more popular compact cars of the 1980's, the ramps are almost unusable in 2003.

By 2000, the popularity of 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 2003 indicate that the larger vehicles will continue to be the automobile of choice despite rising and unpredictable fuel prices. A four-year traffic analysis shows very little fluctuation in the types of vehicles being carried on the ship. Large automobiles occupy most of the vehicle deck space at 40% of total traffic, followed by vans at 21% and pick-up trucks/sport utility vehicles at 19%.

CUSTOMER SERVICE ON-BOARD

"Dinner Cruise excellent."*

Sunset Dinner Cruising was developed by M.S. Chi-Cheemaun crew in 1997 and is offered on regularly scheduled evening ferry departures throughout the season. Using the port side of the main dining room, Dinner Cruises are limited to a single seating of 90 persons per trip and are fully reserved weeks in advance. Customers are able to select from a menu featuring three entrees, served at the table by trained service staff.

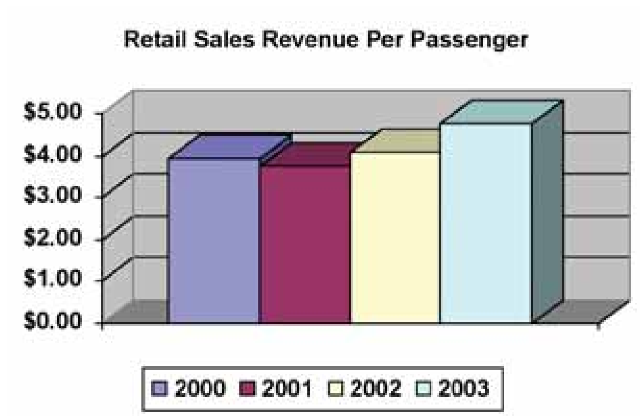
Dinner Cruises are held on regularly scheduled ferry trips and generated $52,000 of revenue in 2003/04.

"It (the Boatique) is beautiful and bigger than our British Columbia ferries (gift shops)"*

Souvenir sales on the *M.S. Chi-Cheemaun* generated $252,000 in revenue during the 2003 operating season. Wherever possible and always in the case of the more expensive items for sale, the Boatique buys Canadian manufactured product for re-sale. The shop also actively promotes the sale of quality work from area artisans.

OSTC maintains a profit margin of 100% in the *M.S. Chi-Cheemaun Boatique*, due in part to Transport Canada crewing regulations which determine the minimum crew complement that must be carried on the ship for emergency preparedness.

All Boatique, Cafeteria and Lounge Service staff personnel are included in the required crew complement. All staff 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 licensed lounge.



* *M.S. Chi-Cheemaun passengers, 2003*

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 may need to take place in the near future to improve the level of comfort afforded our passengers while in our care.

"Shore staff and crew always very helpful to me with my disabilities."*

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.

It is unfortunate and inconvenient for passengers that wheelchairs arriving at the vessel are too large to fit in the elevator. Modern 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.

"Excellent service for the disabled."*

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.

As a structural solution was not available in 2003/04, the Corporation raised awareness among staff members who provided extraordinary personal care to passengers requiring assistance.

OSTC will continue to look for functional elevating mechanisms that will conform to Transport Canada Structural regulations for the retrofitting of an existing ship.

"We were disgusted with the amount of cigarette butts on the non-smoking deck."*

Since 1996, smoking has been restricted to the exterior decks of the ship and has been difficult to enforce without the support of applicable legislation. Late in 2002, County By-Laws applicable to the vessel while in port were passed and has made the prohibition on 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.

Smoking will continue to be allowed on the exterior decks of the vessel until 2005 at which time, no smoking will be permitted anywhere on the vessel, exterior decks included. Once smoking is entirely abolished on the ship, the problems associated with passengers' preference to use the deck to extinguish cigarettes instead of the ashtrays provided will also have been resolved.

* *M.S. Chi-Cheemaun passengers, 2003*

"Nice to see renovated washrooms, cafeteria and lounge."*

A structural study of the *M.S. Chi-Cheemaun* was completed in 2003 and proved the ship's structure to be in virtually the same condition as when the vessel was constructed in 1974. This study supported Management's position that the ship, once re-powered, would have a good 25 to 30 years service life ahead. The interior of the ship has been subject to high levels of wear and tear having been host to over 7,500,000 passengers and has been periodically upgraded as required. Major renovations to interior passenger spaces during 2003/04 included the installation of completely new washrooms from the floors including the floors and, replacement of the dining room and lounge carpeting and chairs.

"Would like to have paper towels in the washroom; blowers are useless."*

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 has introduced limited recycling on board the ship and composting at the Tobermory terminal building.

In 2002/03 and 2003/04 OSTC replaced the vacuum toilet system on the *M.S. Chi-Cheemaun*. Older vacuum systems are vulnerable to blockages which shut down the entire system throughout the ship. Vacuum toilet systems require minimal water to function, significantly reducing the amount of effluent to be pumped off the ship into a sanitary septic system for treatment.

The system installed in 2002/03 and 2003/04 re-located the vacuum pump from inside the main drain pipes to outside of the pipes. This simple 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.

AREAS WHERE IMPROVEMENT IS STILL REQUIRED

OSTC believes in the principle of continuous renewal. When the ferry customers take the time to bring items to our attention that can make their time with us more enjoyable, we listen. Some of the areas to which the Corporation will attend include:

- Improving directional signing on board the ship;
- Improving delivery of safety and general information announcements and;
- Reducing customer waiting time when making reservations.

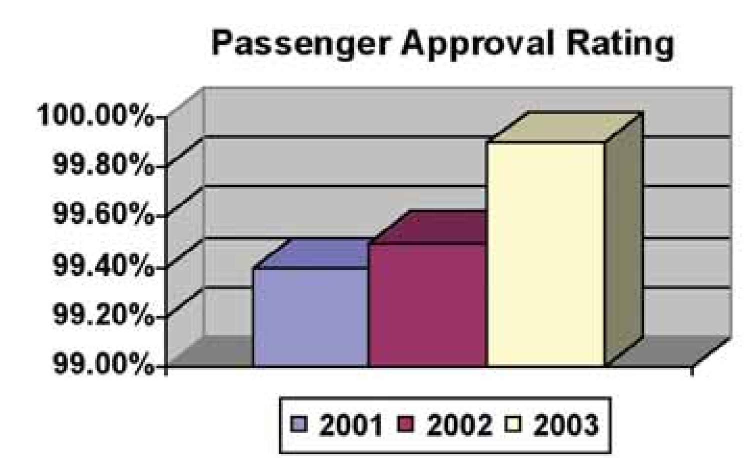
* *M.S. Chi-Cheemaun passengers, 2003*

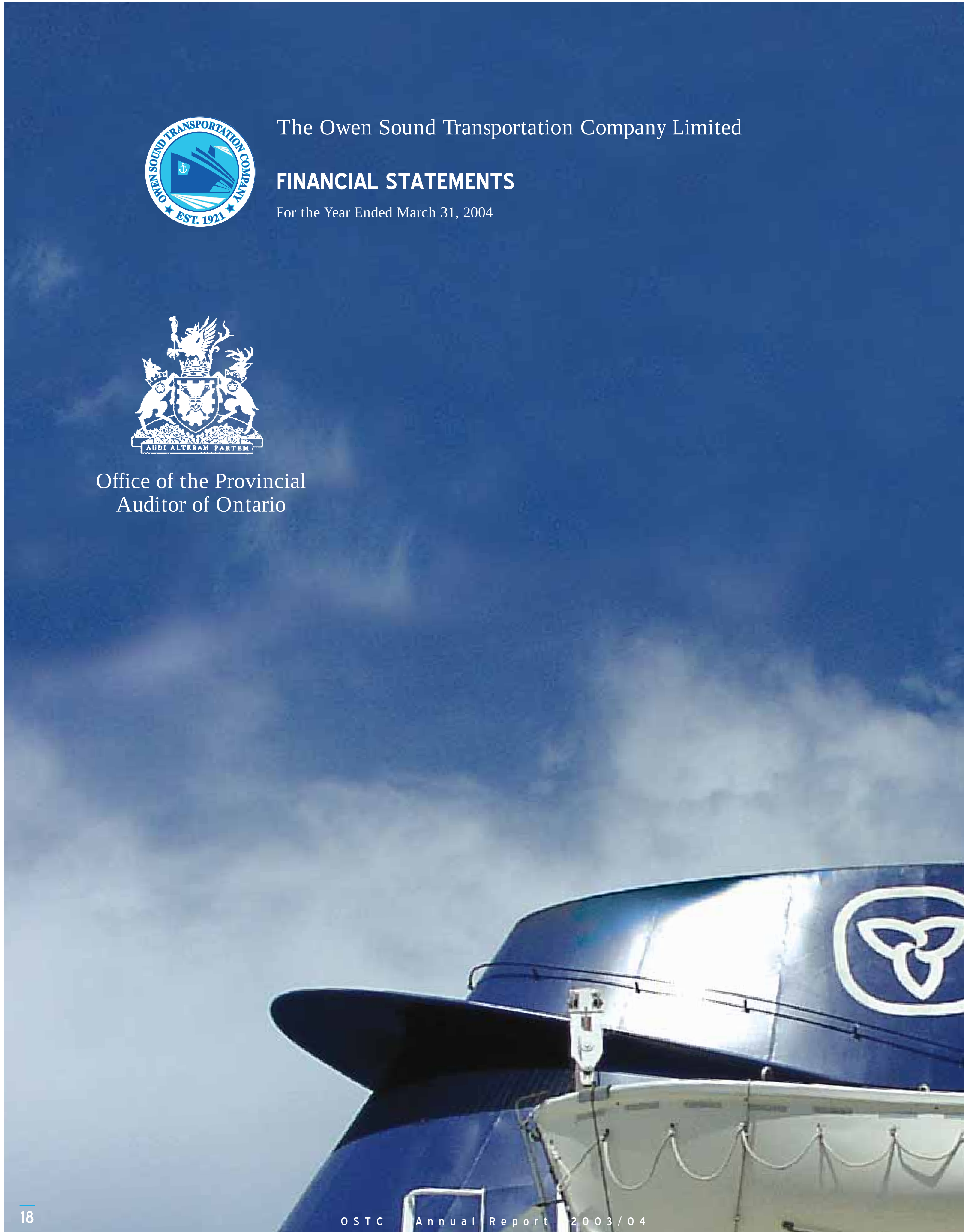
THE LAST WORD

On an operational and financial basis, the Corporation met its strategic goals and objectives, surpassed the 2003 performance measures and, experienced a positive financial outcome despite the difficult external influences.

The question that remains is one that only the 2003 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 99.90% of surveyed customers responded "Yes", up four tenths of a percentile from 2002 when customer satisfaction levels were measured at 99.5%.





The Owen Sound Transportation Company Limited

FINANCIAL STATEMENTS

For the Year Ended March 31, 2004

Office of the Provincial Auditor of Ontario

AUDITOR'S REPORT

In accordance with our appointment by the Board of Directors as auditor of The Owen Sound Transportation Company, Limited, an audit of the accounts of the Company has been completed for the year ended March 31, 2004. A copy of the audited financial statements is enclosed.

You will be pleased to note that I have given an unqualified audit opinion on the enclosed financial statements. The audit procedures and tests to determine my opinion are not designed to identify all weaknesses in internal controls, provide assurances on systems and procedures as such, nor detect all instances of non-compliance. The audit is designed to provide an opinion on the fairness of the financial statements and therefore does not deal directly with value-for-money issues.

Sincerely,

Gary R. Peall, CA
Acting Deputy Auditor General
Office of the Auditor General of Ontario
Toronto, Ontario
March 22, 2005

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	2004	2003
Assets		
Current		
Cash and cash equivalents	$ 491,703	$ 1,066,131
Accounts receivable (Note 1)	1,277,075	2,051,983
Inventory	78,059	60,772
Prepaid expenses	–	124,792
	1,846,837	3,303,678
Investment in capital assets (Note 2)	1,976,033	1,645,565
	$ 3,822,870	$ 4,949,243
Liabilities and Province of Ontario Equity		
Current		
Accounts payable and accrued liabilities	$ 447,385	$ 1,189,975
Deferred reimbursement (Note 5)	1,063,905	1,689,872
	1,511,290	2,879,847
Workers' compensation obligations	155,659	153,023
	1,666,949	3,032,870
Contingency (Note 6)		
Province of Ontario Equity		
Investment by the Province of Ontario (Page 4)	1,762,421	1,633,050
Retained earnings (Page 5)	393,500	283,323
	2,155,921	1,916,373
	$ 3,822,870	$ 4,949,243

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

For the year ended March 31	*2004*	*2003*
Balance, beginning of year		
Net investment in capital assets	$ 1,598,060	$ 1,373,456
Net investment in share capital (1 common share)	34,990	34,990
	1,633,050	1,408,446
Net Changes During The Year		
Amortization (Note 2)	(372,966)	(355,562)
Capital funding - Ministry of Northern Development and Mines	502,337	580,166
	129,371	224,604
Balance, end of year		
Net investment in capital assets	1,727,431	1,598,060
Net investment in share capital (1 common share)	34,990	34,990
	$ 1,762,421	$ 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	2004	2003
Revenues			
Vehicles	$ 2,477,000	$ 2,544,848	$ 2,565,521
Passenger revenue	2,371,000	2,393,127	2,451,233
Cafeteria	686,000	712,121	642,000
Tuck and terminal gift shops	274,000	275,999	278,469
Ministry of Northern Development and Mines subsidy	650,000	650,000	780,000
Pelee Island ferry service management fee (Note 5)	325,000	325,000	355,396
Interest and other	391,000	303,892	353,101
	7,174,000	7,204,987	7,425,720
Expenses			
Salaries and wages	3,323,369	3,215,255	3,195,599
General and administrative expenses	1,210,659	1,250,846	1,349,783
Services	631,982	652,222	635,863
Employee benefits	744,918	616,262	617,646
Fuel	619,814	636,622	569,534
Repairs and maintenance	345,994	398,190	546,098
Utilities	179,103	178,046	157,251
Tools and operating supplies	118,161	147,367	121,587
	7,174,000	7,094,810	7,193,361
Income From Operations	$ –	$ 110,177	$ 232,359

For the year ended March 31	2004	2003
Retained earnings, beginning of year	$ 283,323	$ 50,964
Income from operations (Page 6)	110,177	232,359
Retained earnings, end of year	$ 393,500	$ 283,323

For the year ended March 31	2004	2003
Cash provided by (used in)		
Operating Activities		
Income from operations	$ 110,177	$ 232,359
Items not affecting cash		
Amortization (net of contributed surplus amortization)	10,333	6,151
	120,510	238,510
Changes in non-cash working capital balances		
Accounts receivable	774,908	(2,051,983)
Inventory	(17,287)	(29,965)
Prepaid expenses	124,792	(26,652)
Accounts payable and accrued liabilities	(742,590)	1,189,975
Deferred reimbursement	(625,967)	1,689,872
Worker's compensation obligations	2,636	–
	(362,998)	1,009,757
Investing and Financing Activities		
Purchase of capital assets	(713,767)	(524,292)
Capital funding - Ministry of Northern Development and Mines	502,337	580,166
	(211,430)	55,874
Change in cash and cash equivalents during the year	(574,428)	1,065,631
Cash and equivalents, beginning of year	1,066,131	500
Cash and equivalents, end of year	$ 491,703	$ 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, 2004

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 OSTC'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) were transferred to the Ministry 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 as part of the ONTC group plan. Separate data relating to the OSTC employees is not available. Accordingly, the benefit cost recorded on the financial statements is limited to the amount of contributions made to these benefit plans by the OSTC in the year. Due to the multi-employer nature of these plans, no amounts for future employee benefits is recorded in the financial statements in accordance with the CICA Handbook for multi-employer plans.

Workers Compensation Benefits

The OSTC is a Schedule 2 employer with respect to workers' compensation benefits. As such the OSTC 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	20 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 financial statements of the OSTC, but instead are accounted for by the Ministry of Transportation. Any costs incurred by the OSTC with regards to capital expenditures of the Pelee Island Service are recovered from the Ministry and have no impact on these financial statements.

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, accounts payable and accrued liabilities, and workers' compensation obligations. 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. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

1. Accounts Receivable

	2004	2003
Ministry of Northern Development and Mines	$ 377,877	$ 90,350
Ministry of Transportation	872,171	1,948,335
Other	27,027	13,298
	$ 1,277,075	$ 2,051,983

2. Investment in Capital Assets

	2004		2003	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Chi-Cheemaun Ferry	$ 10,441,407	$ 9,076,687	$ 9,975,672	$ 8,728,643
Equipment and other	317,368	295,023	317,368	287,573
Building and improvements	585,611	91,933	357,780	65,139
Land	76,100	_	76,100	_
Land improvements	20,200	1,010	_	_
	$ 11,440,686	$ 9,464,653	$ 10,726,920	$ 9,081,355
Net book value		$ 1,976,033		$ 1,645,565

Included in general and administrative expenses is amortization expense in the amount of $10,333 (2003 - $6,151). The total amortization for the year is $383,299 (2003 - $361,713) with $372,966 (2003 - $355,562) being applied to investment by the Province of Ontario in accordance with the OSTC's accounting policy.

3. 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, 2004 there were no draws outstanding under this credit facility.

4. Employee Benefits

The total amount paid to ONTC during the year for non-pension post retirement benefits was $92,079 (2003 - $90,200). No employer contributions were paid to the ONTC Pension Plan during the year because of a contribution holiday.

NOTES TO FINANCIAL STATEMENTS

March 31, 2003

5. Government Funding

a. Ministry of Transportation

Under the terms of the Pelee Transportation Service Operating Agreement dated March 16, 2002, the OSTC is reimbursed by the Ministry of Transportation for operating costs 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).

The revenue and expenses related to the Pelee Transportation Service Agreement is not reflected in these financial statements.

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 $650,000 (2003 - $780,000). The capital subsidies are paid to the OSTC on submission of invoices for capital items consistent with its approved capital plan. These amounts totalled $502,337 (2003 - $580,166).

c. Deferred Reimbursement

Deferred reimbursements are a combination of the Ministry of Transportation (MTO) reimbursements received in advance and funds either committed to reimburse OSTC for expenditures made or provided for future operating expenditures or specified capital projects.

6. Contingency

The OSTC has received a notice of an intended lawsuit arising from a fatal plane crash at Pelee Island on January 17, 2004. No statement of claim has been issued. The other potential defendants, Air Georgian and the Ministry of Transportation, as well as The Owen Sound Transportation Company, Limited, carry substantial liability insurance to cover such claims. The likelihood of the success of this action is not determinable at the present time and as a result is not reflected in these financial statements.

7. Economic Dependence

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