OWEN SOUND
TRANSPORTATION
COMPANY, LIMITED

2007/08
ANNUAL REPORT

Owen Sound Transportation Company, Limited

2007/08 ANNUAL REPORT

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Owen Sound Transportation Company, Limited is an Agency of the Province of Ontario. Services are financially supported by the Provincial Government through a Contribution Agreement with the Ministry of Northern Development, Mines and Forestry.

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ISSN 1925-2374

MANDATE

Owen Sound Transportation Company, Limited contributes to the provision of safe, efficient and reliable ferry transportation in the Province of Ontario, primarily through the operation of seasonal vehicle/passenger ferry service between Tobermory and South Baymouth, Manitoulin Island. It contributes to economic development in this region by supporting the creation of a positive business climate and by enhancing and promoting the tourism sector through partnerships with local communities and regional stakeholders.

DESCRIPTION

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 separated from the ONTC and established as an Operational Enterprise Agency of the Province of Ontario with its head office in Owen Sound, Ontario.

OSTC is an integral part of Ontario's tourism and transportation system. 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 2007/08, 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 Seafarers' International Union of Canada and the Canadian Marine Officers' Union. OSTC is responsible for the administration of three collective agreements. The workforce consists of 17 full-time employees augmented by 113 seasonal employees*.

* Pelee Island Transportation Service employees excluded.

CORPORATE GOVERNANCE

The Ministry of Northern Development, Mines and Forestry, 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 OSTC's Board of Directors, who are responsible for the administration of the business of 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 General Manager, to whom it delegates the responsibility for the leadership and management of the Corporation.

MESSAGE FROM THE CHAIR

The contributions made by the staff of all OSTC departments has again enabled the Company to provide the safe, efficient, and reliable ferry service mandated by the Province of Ontario. The successful completion of the two year re-powering project of the M.S. Chi-Cheemaun has resulted in an operating season free of any interruptions or delays due to mechanical malfunction. This combination of modern equipment and a staff of dedicated professionals has again resulted in OSTC meeting or exceeding all Performance Criteria.

On behalf of the Board of Directors I extend congratulations to the staff of OSTC for the excellent service they have provided to the travelling public this past year.

Barney Hopkins
Chairman of the OSTC Board of Directors

COMPANY BOARD & EXECUTIVE

Board of Directors

Barney Hopkins – Chair – Tobermory	(01 April 2002 – 31 March 2010)
Sharon Alkenbrack – Kagawong	(06 June 2005 – 05 June 2008)
Martin Garfield Brown – South Baymouth	(01 July 2005 – 30 June 2008)
Jennifer Sayyae – Little Current	(27 July 2005 – 26 July 2008)
John Greenway – South Baymouth	(01 April 2007 – 31 March 2010)
Hugh Moggy – Manitouwaning	(01 June 2007 – 31 May 2010)

Executive Management

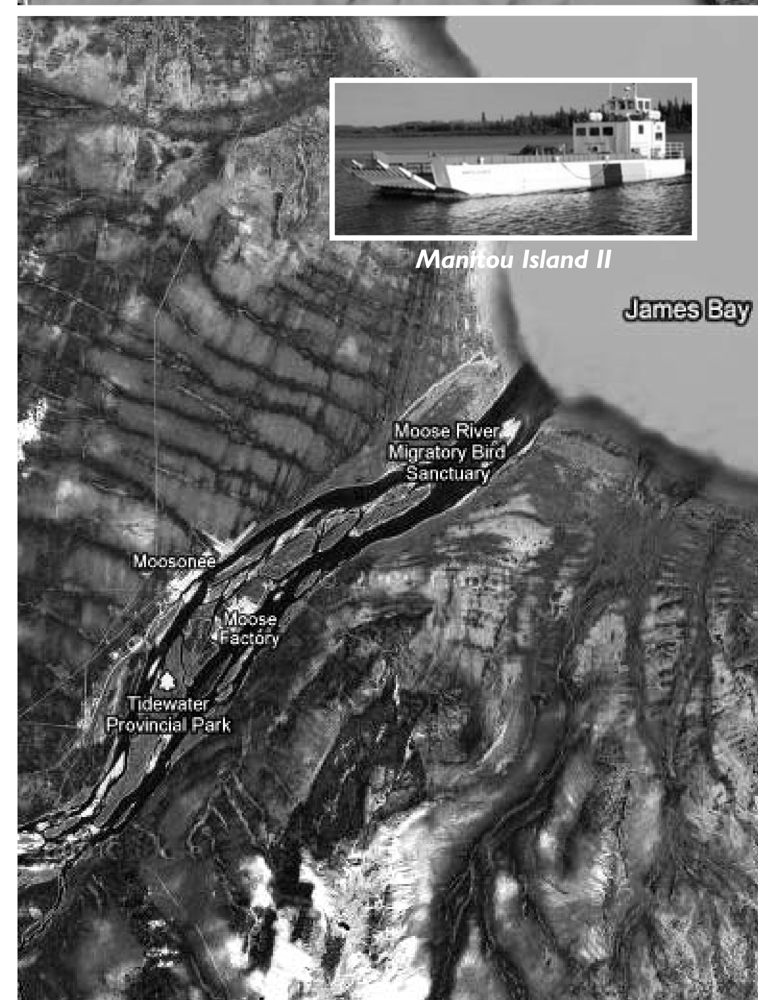
S.M. Schrempf – General Manager & Secretary to Board of Directors

I.R. Dean – Manager Operations & Customer Service

J. Noble – Supervisor Accounting

SERVICE AREA

M.S. Chi-Cheemaun



Manitou Island II

M.V. Jiimaan

Owen Sound Transportation Company, Limited

OPERATIONAL OVERVIEW

Owen Sound Transportation Company, Limited

Key Performance Indicators

Key Indicators	2007/08	2006/07	2005/06
Income per passenger (ticket and on-board sales)	**$ 32.06**	$ 31.24	$ 29.30
Expense per passenger (operating only)	**$ 36.87**	$ 37.69	$ 33.39
Percentage of operating expenses recovered from income	**86.97%**	82.89%	87.75%
Retail service revenue per passenger	**$ 4.55**	$ 4.57	$ 4.42
Advertising expense per passenger	**$ 0.70**	$ 0.70	$ 0.54
Fuel expense per one-way crossing (average from total fuel cost)	**$ 1,402.44**	$ 1,340.05	$ 1,127.03
Passengers carried	**221,710**	213,852	231,838
Utilization - passengers	**35.39%**	34.63%	37.00%
Vehicles carried	**84,774**	81,628	87,677
Utilization - vehicles	**68.84%**	67.12%	70.71%
Annual total number of departures	**982**	968	982
Average number of vehicles per departure	**86**	84	89
Average number of passengers per vehicle	**2.62**	2.62	2.64

Financial Highlights	2007/08	2006/07	2005/06
Operations:			
Commercial revenues	**$ 7,108,793**	$ 6,681,611	$ 6,793,752
Operating contract revenues	**$ 380,000**	$ 380,000	$ 380,000
Total revenue	**$ 7,488,793**	$ 7,061,611	$ 7,173,752
Operating expenses	**$ 8,173,962**	$ 8,061,032	$ 7,742,088
Amortization	**$ 405,276**	$ -	$ -
Total expense	**$ 8,579,238**	$ 8,061,032	$ 7,742,088
Loss before Provincial funding	**$ (1,090,445)**	$ (999,421)	$ (568,336)
Provincial funding	**$ 830,000**	$ 1,012,729	$ 949,000
Net (loss) earnings	**$ (260,445)**	$ 13,308	$ 380,664
Assets:			
Current	**$ 2,183,097**	$ 1,473,120	$ 3,400,361
Investment in capital assets	**$ 12,478,476**	$ 12,196,383	$ 9,988,945
Total assets	**$ 14,661,573**	$ 13,669,503	$ 13,389,306

* Capital additions are directly financed and therefore are not included or amortized in Operating Expenses. For presentation purposes, amortization was removed from the Statement of Provincial Equity and is shown as part of Operations effective 2007/08.

Owen Sound Transportation Company, Limited

OPERATIONAL OVERVIEW

Accomplishments

Major Capital: With the conclusion of the 2-year re-engining of the M.S. Chi-Cheemaun, 2007/08 Capital funding was committed to improving passenger accessibility, specifically the passenger-elevating devices. Through ongoing passenger accessibility audits conducted on the ferry and terminal facilities, it was identified that the location of the ship's on-board elevator precluded its enlargement which was necessary to become suitable for passengers utilizing motorized wheelchairs. In order to ensure continued safe accessibility for passengers with physical limitations, when boarding and disembarking the vessel, OSTC began construction of two fully-enclosed, outdoor, passenger elevators, adjacent to the existing walk-on passenger ramps at the Tobermory and South Baymouth facilities. Completion is scheduled for spring/summer 2008.

Traffic: OSTC carried 221,710 passengers and 84,774 vehicles over 982 departures. This represents a 3.9% increase over traffic volumes carried in 2006/07, but is still 5.4% below peak traffic as carried in 2002/03.

As part of a structured effort to increase traffic while making the ferry operation more efficient and reducing GHG emissions, OSTC introduced a 10% discount for recognized fuel-efficient vehicles small enough to be carried on the underutilized, interior McGregor vehicle ramps. A 10% discount for large commercial vehicles using the 10:00 pm crossing from South Baymouth was also implemented and well received.

Machinery: Installation of four, new, main engines took place over the winter, marking the completion of the re-powering project on M.S. Chi-Cheemaun. Set-up in a double-input, single-output configuration, all four engines were used in the break-in period to ensure they were functioning to expectations. In future seasons, standard operating procedure is intended to operate only two engines at a time, using four engines only for heavy-weather maneuvering, or to make up lost time when necessary.

There were no service interruptions or delays due to mechanical malfunction during the 2007/08 operating season.

Safety & Environment: OSTC has maintained voluntary International Safety Management Code compliance since receiving certification by Lloyd's Classification Society in 1997. The Safety Management System provides policies and procedures for all aspects of the operation, with the purpose of reducing safety and environmental incidents arising from human error. Through regular internal and external audits, the system is in a state of constant improvement, and is used to evaluate and reduce the risk inherent in the operation of a marine transportation service.

No Safety or Environmental non-compliance incidents occurred during 2007/08.

Customer Satisfaction: 99.1% Customer Satisfaction Level (as measured through the annual customer survey).

Challenges

Fuel Costs: The cost of fuel continued its climb in 2007/08 with a 5% increase in cost per trip over 2006/07. The cumulative increase in fuel cost since it began its meteoric rise is now 273% higher cost per litre than in 2002/03.

2007/08 was the first season of operation with the newly installed engines on M.S. Chi-Cheemaun. During the break-in period, and while establishing the optimal operating speed and power curve for the new equipment, there was no significant reduction in fuel consumption for the four, 6-cylinder, Caterpillar engines versus the two, 16-cylinder Ruston engines they replaced. However, as the new Caterpillar engines are EPA Tier I, IMO Annex VI compliant, the GHG emissions, resulting from the fuel burned, is measurably reduced. Further refinements to the machinery and operating procedures, taking advantage of the flexibility of the new machinery, will result in reduction of total fuel consumption. It is reasonable to expect a reduction of 10 – 15% under normal operating conditions in 2008/09.

Personnel: Availability of certified and qualified Navigation and Engineering Officers continues to be a world-wide problem, with more positions available than certified personnel to fill them. OSTC has no personnel, occupying unlicensed positions, willing to become certified and be promoted to an Officer's position as they become available. To date, OSTC has been able to fill vacancies from outside the company.

Owen Sound Transportation Company, Limited

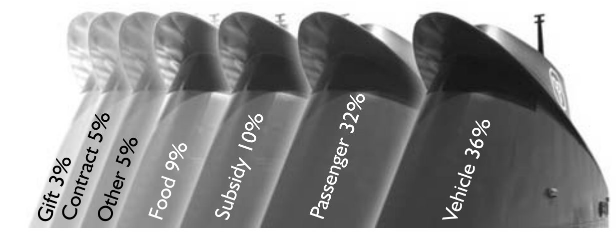
FINANCIAL OVERVIEW

OSTC experienced a net operating loss of $685,169 before a Provincial subsidy of $830,000. Traffic volumes were 3.9% higher than budgeted and resulted in $327,824 additional revenue.

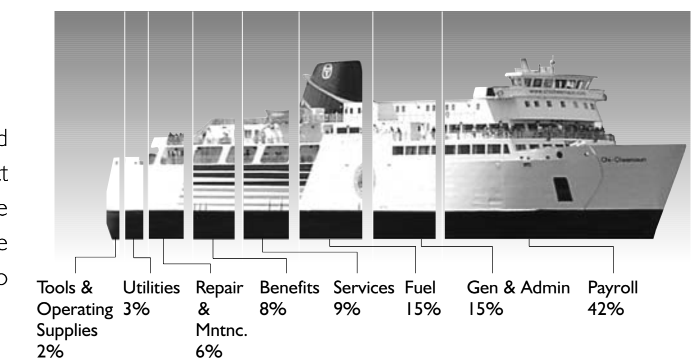
Total expenses were maintained below budget by $115,826, and can be attributed to lower than anticipated fuel costs.

Capital asset investment of $668,092 included the first year of a two-year project to construct outdoor passenger elevators adjacent to the walk-on passenger boarding ramps at the Tobermory and South Baymouth ferry docks to facilitate passenger accessibility.

2007/08 REVENUE



2007/08 EXPENSE



Owen Sound Transportation Company, Limited

FINANCIAL STATEMENTS

For the year ended March 31, 2008

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Owen Sound Transportation Company, Limited

Management's Responsibility

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 financial statements.

The Company maintains systems of internal accounting controls designed to provide reasonable assurance that the financial information is accurate and reliable and that company assets and liabilities are adequately accounted for and assets safeguarded.

The financial statements have been reviewed by the company's Audit Committee (Governing Board of Directors Committee of the Whole) and have been approved. In addition, the financial statements have been audited by the Ontario Provincial Auditor, whose report follows.

Susan Schrempf
General Manager

Owen Sound, Ontario
August 15, 2008

Financial Statements – 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, 2008 and the statements of investment by the Province of Ontario, retained earnings, operations 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 where 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 used 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, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Gary R. Peall, CA
Deputy Auditor General
Licensed Public Accountant

Toronto, Ontario
July 20, 2008

Owen Sound Transportation Company, Limited

Balance Sheet

March 31	2008	2007
		(Restated) (Note 9)
Assets		
Current		
Cash and cash equivalents	$ **176,800**	$ 2,971
Accounts receivable (Note 1)	**1,783,451**	1,327,667
Inventory	**222,846**	107,003
Prepaid expenses	**-**	35,479
	2,183,097	1,473,120
Investment in capital assets (Note 2)	**12,478,476**	12,196,383
	$ **14,661,573**	$ 13,669,503
Liabilities and Province of Ontario Equity		
Current		
Accounts payable and accrued liabilities	$ **845,502**	$ 265,054
Workers' compensation obligations	**148,528**	144,551
	994,028	409,605
Contingencies (Note 6)		
Province of Ontario equity	**13,687,545**	13,259,898
	$ **14,661,573**	$ 13,669,503

Approved on behalf of the Company:

Barney Hopkins Chair

Susan Schrempf General Manager

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

Owen Sound Transportation Company, Limited

Statement of Operations

For the year ended March 31	Budget	2008	2007
			(Restated) (Note 9)
Revenues			
Vehicles	$ 2,877,175	$ **3,016,404**	$ 2,784,809
Passenger revenue	2,621,812	**2,657,322**	2,526,476
Ministry of Northern Development and Mines subsidy (Note 5 (b))	800,000	**830,000**	1,736,850
Cafeteria	714,425	**757,864**	707,882
Interest and other	319,269	**425,351**	392,744
Pelee Island ferry service management fee (Note 5 (a))	350,000	**350,000**	350,000
Tuck and terminal gift shops	278,288	**251,852**	269,700
M.V. Manitou Island II ferry service management fee (Note 5 (c))	30,000	**30,000**	30,000
	7,990,969	**8,318,793**	8,798,461
Expenses			
Salaries and wages	3,497,158	**3,446,555**	3,348,138
Fuel	1,417,500	**1,281,480**	1,315,133
General and administrative expenses	1,153,213	**1,251,863**	1,193,078
Services	710,943	**687,158**	657,224
Employee benefits	782,590	**626,254**	600,805
Repairs and maintenance	337,664	**466,821**	1,258,632
Utilities	205,681	**232,598**	221,700
Tools and operating supplies	185,039	**177,258**	190,443
Change in workers' compensation obligations	-	**3,975**	(479,142)
	8,289,788	**8,173 ,962**	8,306,011
Income (loss) from operations	$ (298,819)	$ **144,831**	$ 492,450

Owen Sound Transportation Company, Limited

Statement of Province of Ontario Equity

For the year ended March 31	2008	2007
		(Restated) (Note 9)
Province of Ontario Equity, opening	$ **13,259,898**	$ 10,524,267
Income (loss) from operations	**144,831**	492,450
Amortization	**(405,276)**	(260,121)
Capital funding (Note 5(b))	**668,092**	2,503,302
Province of Ontario Equity, closing	$ **13,667,545**	$ 13,259,898

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

Owen Sound Transportation Company, Limited

Statement of Cash Flows

For the year ended March 31	2008	2007
		(Restated) (Note 9)
Cash provided by (used in)		
Operating Activities		
Income from operations	**$ 144,831**	$ 492,450
Items not affecting cash		
Change in workers' compensation obligations	**3,975**	(479,142)
	148,806	13,308
Changes in non-cash working capital balances		
Accounts receivable	**(455,784)**	1,879,230
Inventory	**(115,843)**	53,981
Prepaid expenses	**35,479**	(2,999)
Accounts payable and accrued liabilities	**580,448**	(381,590)
	193,106	1,561,930
Investing Activities		
Purchase of capital assets	**(687,369)**	(2,467,559)
Capital funding - Ministry of Northern Development and Mines (Note 5(b))	**668,092**	2,503,302
	(19,277)	35,743
Change in cash and cash equivalents during the year	**173,829**	1,597,673
Cash and equivalents (bank indebtedness), beginning of year	**2,971**	(1,594,702)
Cash and equivalents, end of year	**$ 176,800**	$ 2,971

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

Owen Sound Transportation Company, Limited

Summary of Significant Accounting Policies

March 31, 2008

Nature of Business

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. It also provides vessel management services for the Ontario Northland Transportation Commission to manage and operate the M.V. Manitou Island II ferry service between Moosonee and Moose Factory Island.

Prior to April 1, 2002, OSTC's financial position and results of operations were reported in the financial statements of 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).

Basis of Accounting

These financial statements are prepared by management in accordance with Canadian generally accepted accounting principles.

Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date. The resulting foreign exchange gains and losses are included in income in the current period.

Employee Future Benefits

OSTC's eligible employees continue to participate in the defined benefit pension plan of 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 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 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

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).

Owen Sound Transportation Company, Limited

Summary of Significant Accounting Policies

March 31, 2008

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
Buildings and improvements	20 years
Equipment and other	5 years

The Province of Ontario reimburses OSTC for the cost of approved capital assets purchased for use in operations designated as non-commercial by the Province. OSTC therefore records these assets at their original cost, together with an offsetting credit to Province of Ontario Equity. Annual amortization on these capital assets is recorded as a reduction of the Province of Ontario Equity.

Capital assets of the Pelee Island service are not recorded in the financial statements of OSTC, but instead are accounted for by the Ministry of Transportation. Any costs incurred by 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, 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.

Owen Sound Transportation Company, Limited

Summary of Significant Accounting Policies

March 31, 2008

Financial Instruments

Owen Sound Transportation Company, Limited's (OSTC), financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and workers' compensation obligations. Unless otherwise noted, it is management's opinion that OSTC is not exposed to significant interest, currency or credit risks arising from these financial instruments.

The organization classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired or the liability incurred. The organization's accounting policy for each category is as follows:

a) Held-for-trading

Cash and bank are classified as held-for-trading. Financial instruments classified as held-for-trading are reported at fair value at each balance sheet date, and any change in fair value is recognized in net income (loss) in the period during which the change occurs.

b) Loans and Receivables

This category is comprised of accounts receivable. These assets are non-derivative financial assets arising principally through the provision of goods and services to customers but also incorporate other types of contractual monetary assets. They are initially recognized at fair value.

c) Other Financial Liabilities

Other financial liabilities includes all financial liabilities and comprises accounts payables and accrued liabilities, and workers' compensation obligations. These liabilities are initially recognized at fair value.

New Accounting Pronouncements

Recent accounting pronouncements that have been issued but are not yet effective, and have a potential implication for the organization, are as follows:

Financial instruments - disclosure and presentation

CICA Handbook Section 3862, Financial Instruments - Disclosure, increases the disclosures currently required to enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. CICA Handbook Section 3863, Financial Instruments - Presentation, replaces the existing requirements on the presentation of financial instruments, which have been carried forward unchanged. These standards are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The organization is currently evaluating the impact of the adoption of these changes on the disclosure and presentation within its financial statements.

International financial reporting standards

Publicly accountable enterprises will be required to follow International Financial Reporting Standards for fiscal years commencing on or after January 1, 2011. However, the Public Sector Accounting Board of the CICA is still in the process of deciding what accounting standards should be followed by the various categories of government organizations. The impact of these discussions on the organization's financial statements has yet to be determined.

Notes to Financial Statements

March 31, 2008

1. Accounts Receivable

	2008	2007
Ministry of Northern Development and Mines	**$ 488,778**	$ 922,209
Ministry of Transportation	**1,206,018**	267,365
Other	**88,655**	138,093
	$ 1,783,451	$ 1,327,667

2. Investment in Capital Assets

	2008		2007 (Restated)	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
M.S. Chi-Cheemaun ferry	**$ 21,729,607**	**$ 10,136,980**	$ 21,312,047	$ 9,786,885
Equipment and other	**446,369**	**360,562**	403,404	339,282
Buildings and improvements	**925,585**	**220,833**	698,742	186,933
Land	**76,100**	**-**	76,100	-
Land improvements	**20,200**	**1,010**	20,200	1,010
	$ 23,197,861	**$ 10,719,385**	$ 22,510,493	$ 10,314,110
Net book value		**$ 12,478,476**		$ 12,196,383

3. Operating Loan - Credit Facility

OSTC has negotiated a demand operating line of credit with a Canadian Chartered Bank, bearing interest at the bank's prime rate less 0.5%. The maximum draws that could be advanced on this operating line are $1,845,000. At March 31, 2008, 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 $102,691 (2007 - $95,586). No employer contributions were paid to the ONTC Pension Plan during the year because of a contribution holiday.

Owen Sound Transportation Company, Limited
Notes to Financial Statements
March 31, 2008

5. Government Funding

a) Ministry of Transportation
Under the terms of the Pelee Transportation Service Operating Agreement, dated March 16, 2002, 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 was renewed to March 2008. An interim extension was entered into until a new five-year agreement is finalized that will be retroactive to April 1, 2008. 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 OSTC a management fee equivalent to 10% of the total actual annual operating expenses up to a maximum of $350,000.

The revenue and expenses related to the operation of the Pelee Transportation Service are 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, 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 OSTC on a quarterly basis. These amounts totalled $830,000 (2007 - $1,736,850). The capital subsidies are paid to OSTC on submission of invoices for capital items consistent with its approved capital plan. These amounts totalled $668,092 (2007 - $2,503,302).

c) Ontario Northland Transportation Commission
OSTC signed an agreement with Ontario Northland Transportation Commission to manage and operate the M.V. Manitou Island II ferry service between Moosonee and Moose Factory Island for the period April 1, 2007 - March 31, 2008. OSTC received $30,000 in management fees for the 2007 sailing season.

The revenue and expenses related to operating the service are not reflected in these financial statements.

6. Contingencies

a) OSTC has been named as co-defendant in four separate legal actions from a fatal plane crash at Pelee Island on January 17, 2004. These actions seek $33,900,000 in damages.

Georgian Express Ltd. operated the air service and as part of the agreement with OSTC maintained liability coverage of $20 million naming OSTC as an additional insured. In addition, Georgian Express Ltd. entered into an indemnity and save harmless agreement in favour of OSTC as part of the operating agreement.

The outcome of this claim is not determinable at the present time and, as a result, is not reflected in these financial statements. However, should the claim exceed the insurance coverage in place, OSTC will be indemnified by the Ministry of Transportation.

b) Employees hired after April 1, 2002 are not eligible to join the ONTC pension plan. OSTC has been negotiating to have these employees eligible to join retroactive to April 1, 2002. Any retroactive payments will be reflected in operations in the period in which they become determinable.

7. Economic Dependence

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

Notes to Financial Statements

March 31, 2008

8. Change in Accounting Policy

On April 1, 2007, the organization retroactively adopted, CICA Handbook Section 3861, "Financial Instruments - Disclosure and Presentation", and Section 3855, "Financial Instruments - Recognition and Measurement".

These new Handbook Sections provide comprehensive requirements for the recognition and measurement of financial instruments. Under these new standards, all financial instruments are included on the statement of financial position and are measured either at fair market value or, in limited circumstances, at cost or amortized cost.

The fair values of cash and bank, accounts receivable, accounts payable and accrued liabilities and workers compensation obligations, approximate their carrying amounts because of the short-term maturity of these instruments.

The adoption of these new standards had no material impact on the organization's statement of financial position and statement of operations and net assets.

9. Restatement of Prior Period

During the year, the company determined that expenditures funded by the Province of Ontario for the year ended March 31, 2007, were not capital in nature and should have been included in the statement of operations, along with the provincial funding for the year then ended. These expenditures related to the ship inspections' costs, incurred every five years to recertify the vessel for continuing operations. The financial statement amounts that are presented for comparative purposes have been restated to correct this error as follows:

Increase in Ministry of Northern Development and Mines subsidy	$ 724,121
Increase in repairs and maintenance	$ 724,121
Change in income from operations	$ -
Decrease in Province of Ontario equity	$ 724,121
Decrease in investment in capital assets	$ 724,121

The restatement does not affect net income for the year ended March 31, 2007 but is, rather, an allocation of equity.