OWEN SOUND TRANSPORTATION COMPANY

2012/2013 ANNUAL REPORT


M.S. Chi-Cheemaun


M.V. Niska 1


M.V. Jiimaan

Service Areas

Mandate

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

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

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Message from the Chair

On behalf of the Board of Directors of the Owen Sound Transportation Company (OSTC), I would like to thank all our employees for making 2012 another successful sailing season.

The outstanding service our employees provide to thousands of customers is evidenced by the 97% positive response we have received from our 2012 passenger survey. These satisfied customers, who would recommend the ferry to their friends and relatives, also gave high ratings to their experiences with terminal staff, cafeteria staff, and the ship's crew. This further demonstrates the collective contributions employees made during the sailing season to ensure that all customers had a positive and memorable travelling experience.

While customer satisfaction remains at high levels, OSTC is still battling the traffic decline that began in 2008 as a result of the downturn in the economy, the significant spike in gas prices, the falling US dollar relative to the Canadian dollar, and the improvement to highway alternatives. To obtain some professional insight into which direction we should take to recover the pre-2008 traffic volumes we completed a market feasibility study in 2012/13. The findings of the report were considered informative and the recommendations made by the consultants appear realistic. Some of the changes have already been implemented; they include the removal of the reservation fee, a movement to an on-peak/off-peak fare structure, the introduction of a customer loyalty program and the provision of entertainment on board the ferry and at the docks.

We are optimistic that these changes will gradually improve traffic levels. The movement towards a more tourism-based experience takes time, but OSTC is ready for the challenge, ready to embrace changes, and is prepared for a bright future.

Barney Hopkins
Chairman of the OSTC Board of Directors

Description

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

During 2012/13, OSTC was responsible for the operation of three ships and five terminal facilities on three ferry routes.

As an integral part of Ontario's tourism and transportation system, OSTC owns and operates the M.S. Chi-Cheemaun ferry, providing alternate transportation to Manitoulin Island and the Bruce Peninsula. The Chi-Cheemaun draws tourists to the area from May through October each year. In 2012, the OSTC carried 178,339 passengers and 70,951 vehicles between Tobermory and South Baymouth.

OSTC also operates the M.V. Niska I on behalf of Ontario Northland Transportation Commission (ONTC) between Moosonee and Moose Factory, providing vehicle, freight and passenger services, and is contracted by the Ontario Ministry of Transportation to provide year-round transportation services to Pelee Island on Lake Erie.

OSTC's workforce consists of unionized and management employees. Unionized employees are members of the Seafarers' International Union of Canada. OSTC is responsible for the administration of two collective agreements. The workforce consists of 17 full-time employees augmented by 113 seasonal employees.*

*Pelee Island Transportation Service employees excluded

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 CEO, to whom it delegates the responsibility for the leadership and management of the Corporation.

Board of Directors

Barney Hopkins – Chair – Tobermory	(01 April 2002 – 31 March 2014)
Martin Garfield Brown – South Baymouth	(01 July 2005 – 30 June 2014)
John Greenway – South Baymouth	(01 April 2007 – 31 March 2014)
Hugh Moggy – Manitowaning	(01 June 2007 – 31 May 2014)
Bill Caulfeild-Browne – Tobermory	(15 June 2012 – 14 June 2015)

Executive Management

S.M. Schrempf – President and CEO and Secretary to Board of Directors
S. Shaw – Vice President of Operations
J. Ostrander – Vice President of Engineering
K. Rutherford – Vice President of Finance

Operational Overview – Key Performance Indicators

Key Indicators	2012/13	2011/12
Income per passenger (ticket and on-board sales)	$ 38.28	$ 37.54
Expense per passenger (operating only)	$ 47.55	$ 45.80
Percentage of operating expenses recovered from income	80.50%	81.96%
Retail Service Revenue per passenger	$ 5.65	$ 5.33
Advertising expense per passenger	$ 0.90	$ 0.92
Fuel expense per one-way crossing (avg from total fuel cost)	$ 1,270.29	$ 1,541.50
Passengers carried	178,339	180,768
Utilization - passengers	28.64%	29.09%
Vehicles carried	70,951	71,039
Utilization - vehicles	57.24%	57.51%
Annual total # of departures	976	974
Average # of vehicles per departure	73	73
Average # of passengers per vehicle per departure	2.51	2.54

Financial Highlights	2012/13	2011/12
Operations:		
Commercial Revenues	$ 6,825,939	$ 6,785,738
Operating Contract Revenues	$ 575,200	$ 510,836
Market Study Grants	$ 109,186	$ –
Total Revenue	**$ 7,510,325**	**$ 7,296,574**
(1) Operating Expenses	$ 8,479,294	$ 8,278,994
Market Study Costs	$ 111,964	$ –
Amortization	$ 698,022	$ 786,257
Total Expense	**$ 9,289,280**	**$ 9,065,251**
Loss before Provincial Funding	$ (1,778,955)	$ (1,768,677)
Provincial Funding - operating	$ 1,376,110	$ 1,000,000
Provincial Funding - capital projects expensed	$ 6,375	$ 12,607
(2) Net earnings (loss)	**$ (396,470)**	**$ (756,070)**
Assets:		
Financial Assets	$ 2,280,378	$ 1,226,263
Non-financial Assets	$ 19,340	$ 100,024
Investment in Capital Assets	$ 13,370,976	$ 12,808,974
Total Assets	**$ 15,670,694**	**$ 14,135,261**



Operational Overview – Key Performance Indicators – continued

Key Indicators	2012/13	2011/12
Notes to Key Indicators:		
(1) Total expenses per audited financial statements	$ 9,395,633	$ 11,001,520
Less: Amortization (reported separately above)	$ (698,022)	$ (786,257)
Market Study Costs (reported separately above)	$ (111,964)	$ –
Change in WSIB	$ (57,901)	$ 36,598
Change in Employee Future Benefits	$ (48,452)	$ (64,769)
Dry Dock (expense reimbursed with capital dollars)	$ –	$ (1,908,098)
Total Operating Expenses per Above	$ 8,479,294	$ 8,278,994
(2) Annual surplus (deficit) per audited financial statements	$ 724,233	$ (752,120)
Less: Capital funding from MNDM (capital expenses directly financed and not included in operating expenses - therefore, capital funds do not cover operating losses)	$ (1,227,056)	$ (32,121)
	$ (502,823)	$ (784,241)
Remove change in WSIB Obligation	$ 57,901	$ (36,598)
Remove change in Employee Future Benefits	$ 48,452	$ 64,769
Adjusted Net Loss	$ (396,470)	$ (756,070)

OSTC's WSIB and Employee Future Benefits liabilities change for the year are posted through the income statement, however, these adjustments do not reflect true ferry operation expenses. Therefore, these amounts have been removed from the audited financial statement totals for the year to come to adjusted expense and income (loss) amounts to be used in the key performance indicators analysis above.

Operational Overview – Accomplishments

Major Capital: OSTC management oversaw the completion of over $1.2 million in capital projects in 2012/13. The majority of the capital spending went towards the purchase and complete installation of a new marine evacuation system. This new system can evacuate a full-capacity load of passengers in under thirty minutes. Other capital projects included the installation of new fire doors, a new convection oven, satellite phone, and upgrades to accessibility amenities.

Machinery: There were no service interruptions resulting from mechanical breakdowns during the 2012 operating season. Extreme wind conditions forced the cancellation of one round-trip crossing in September and two round-trip crossings in October.

In the fall of 2012, OSTC completed the mandatory 8,000-hour engine maintenance on all four engines on the ferry. No major issues were encountered.

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 2012/13.

Changes to Transport Canada training requirements for ferry operations included Passenger Safety Management (PSM) training for all on-board crews within 6 months of being employed on board. PSM augments the crew member's existing certification in Marine Emergency Duties. All OSTC permanent employees were trained in spring 2011. Part-time employees were trained prior to the 2011 summer schedule. Training for new hires is conducted as required.

Occupational Safety and Health: There were no changes to Occupational Safety and Health regulations during the 2012/13 period that affected OSTC. OSTC maintained normally scheduled OSH training and inspections for employees and facilities. Employee accident rates remain within industry standards and the organization's health and safety strategies remain on target.

Customer Satisfaction: 97% Customer Satisfaction Level (as measured through the annual customer survey).

Moosonee/Moose Factory Island Ferry: OSTC's contract with Ontario Northland Transportation Commission to manage ONTC's Moose River ferry service operating between Moosonee and Moose Factory Island route across the Moose River in Northern Ontario was renewed for the 2012/13 season.

OSTC continued to oversee the operations of the M.V. Niska 1 in 2012. Similar to previous seasons, low water levels continued to create conditions where the new vessel was not able to operate on a regular schedule in the absence of improvements to shore-side infrastructure. The need for dredging in the navigation route has been identified in the four-year capital plan for the Moosonee operations.

OSTC and ONTC will negotiate an appropriate operating arrangement/agreement for the continuation of the Moose River ferry service in 2013/14 while the transfer of the operations to OSTC is being finalized. The agreement will include continued engagement of local services provided through the Moose Band Development Corporation.

Operational Overview – Challenges

Fuel Costs: The cost of fuel per one-way ferry crossing decreased by 18% over 2011/12 in accordance with fuel use comparisons completed for each year. This was a result of lower fuel prices, a more favourable fuel contract with a new provider and maintenance on the propellers which was completed during the five-year mandatory out-of-water inspection in 2011/12.

Since reducing engine use to the absolute minimum required to complete the scheduled crossings in 2008/09, OSTC's fuel consumption containment efforts have been limited to minor savings that may be achieved through the introduction of fuel monitoring technology as it becomes approved, available and affordable.

Traffic: OSTC carried 178,339 passengers and 70,951 vehicles over 976 departures, a 1% decrease in total customers over two more ferry crossings when compared to 2011/12. The 2012 sailing season had one additional sailing day over 2011 which was an additional four crossings. This was offset by six cancelled crossings in the fall of 2012 due to high winds versus the four lost crossings due to high winds experienced in 2011. No crossings were lost as the result of mechanical failures in the past two sailing seasons.

The operation requires a minimum average of 80 vehicles per sailing to maintain a balanced budget under current financial conditions. Fiscal 2012/13 saw an average of 73 vehicles per sailing, which is consistent with prior year averages. This shortfall in traffic levels results in larger operating subsidies from the Ministry in order to balance the budget.

For the 2012 sailing season, OSTC maintained the existing 2011 fare levels. The 2012/13 budget was prepared under the assumption that 2011 traffic levels would be sustained. This proved to be the case throughout the entire season, with the Spring traffic figures showing an improvement over the prior year volumes. Since the traffic levels were meeting the expectations as set out in the budget, no fare increase was implemented.

Given the price sensitivity of travellers, compounded by high personal vehicle fuel costs, each increase to the vehicle and passenger fares risks permanent further losses of ferry traffic. The M.S. Chi-Cheemaun traffic is dependent on people driving their automobiles, and choosing to take the ferry versus driving around Georgian Bay. The ferry cannot compete with the flexibility and open schedule provided by the highway alternative. Highway improvements have also limited the time benefit that can be achieved by taking the ferry. OSTC continues to be cautious with fare increases so as to ensure the ferry prices are not significantly more than the driving-around alternative.

The organization's operating subsidy was increased to $1,350,000 in fiscal 2012/13 to assist with covering the operating deficit that has been experienced in the past few years. These additional funds enabled the corporation to continue to operate at the current level of service while maintaining existing pricing levels.

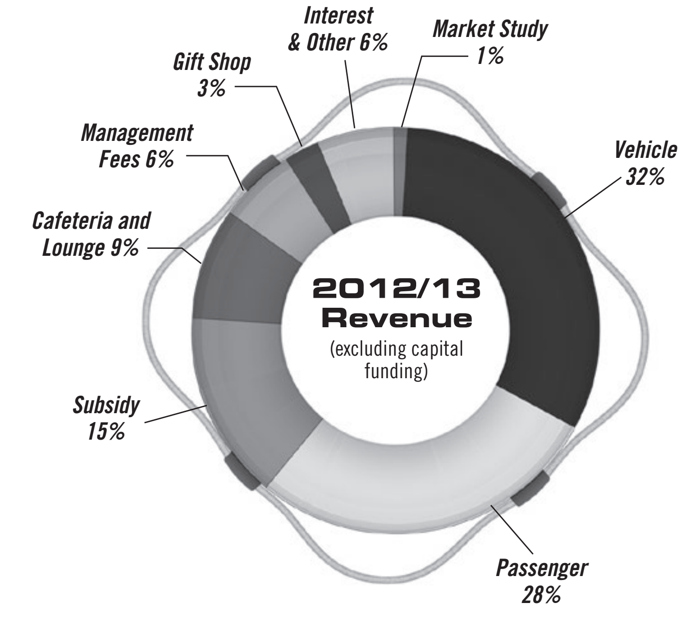
Personnel: Availability of certified and qualified Navigation and Engineering Officers continues to be a worldwide problem with more positions available than certified personnel to fill them. OSTC has no personnel occupying unlicensed positions willing to become certified and be promoted to an Officer's position as those positions become available through retirements or resignations. To date, but with increasing difficulty, OSTC has been able to fill vacancies from outside the company.

Financial Overview

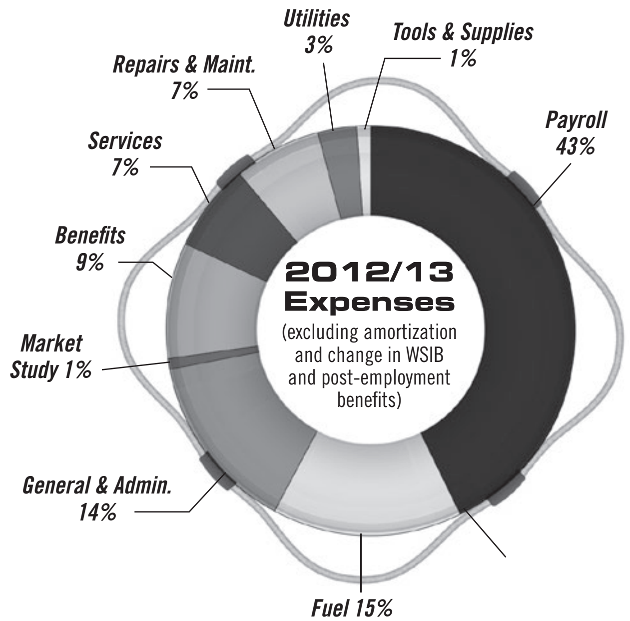
Traffic on the M.S. Chi-Cheemaun, and corresponding revenue from traffic and on-board spending exceeded budgeted expectations by 1%. Operating revenue for the year was $6,825,939. The 2012/13 budget was based on experiencing 2011/12 traffic which did occur. Improved on-board spending by passengers slightly increased the amount of operating revenue generated. This is evidenced by the 6% increase in Retail Service Revenue per Passenger in 2012/13 compared to 2011/12 as outlined in the Key Indicators on page 7.

In 2012/13 OSTC saw fuel prices decline for the first time in four years. A new fuel contract also provided more favourable fuel prices and maintenance performed on the propellers at the beginning of the year resulted in less fuel being consumed while sailing. All these factors contributed to OSTC's fuel costs decreasing 18% over the prior year and being 25% less than budget. The budget assumed that fuel prices would continue to climb.

The cost of completing the market feasibility study was also significantly less than originally anticipated. OSTC was able to retain a consulting firm that had the necessary expertise and experience to provide a quality product at a reasonable cost. The market study completion came in under budget by 55%.

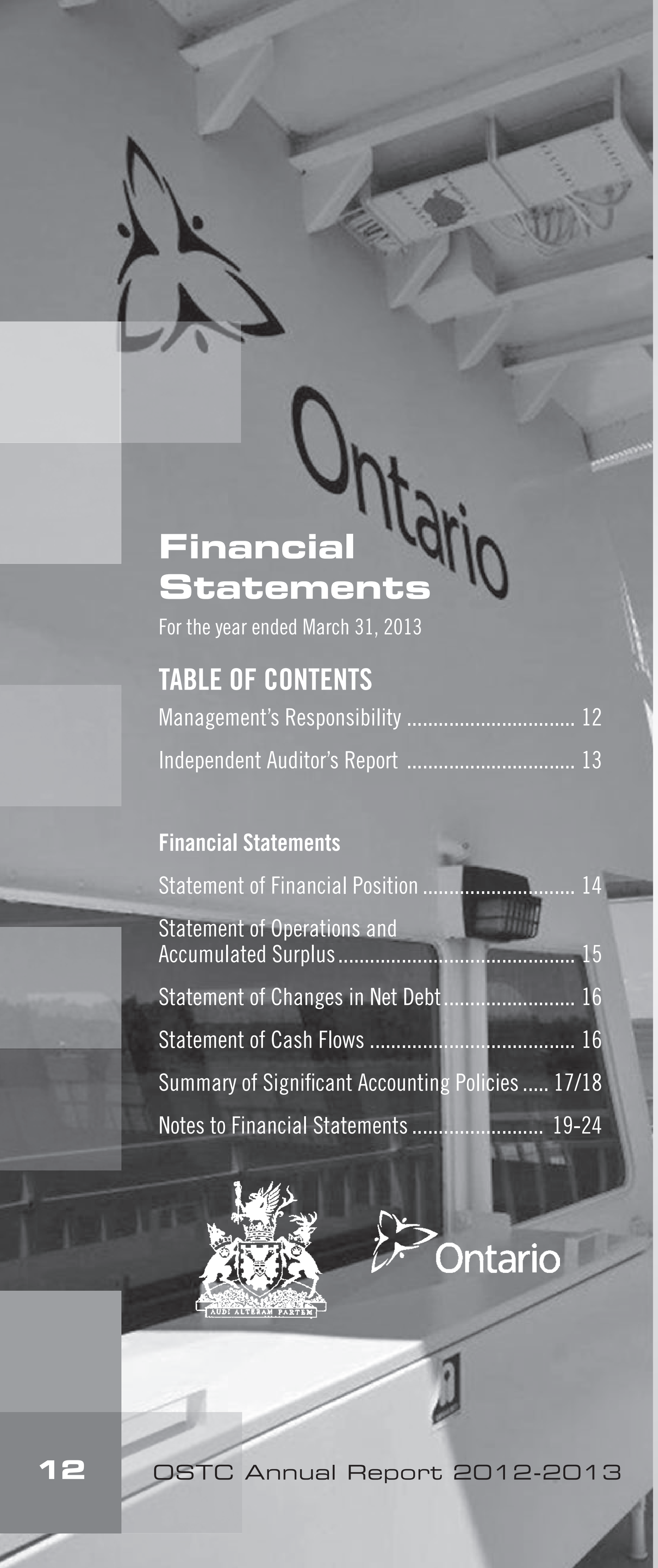


The cost savings in fuel and marketing study were offset by some additional spending in the repairs and maintenance area to maintain the ship's operating efficiency. An 8,000-hour engine maintenance was performed on all four of the Chi-Cheemaun engines in 2012/13, in addition to replacing and retubing the bow visor hydraulic rams and retubing the starboard retractable car ramps in the Spring. All repairs and maintenance completed were done to ensure that there were no mechanical failures during the sailing season.



Overall, total operating expenses for 2012/13 were 6% lower than budget. Total operating expenses for the year (excluding amortization, employee future benefits and WSIB changes for the year) were $8,591,258.

M.S. Chi-Cheemaun ferry services experienced a net operating loss of $1,653,355 before the Provincial subsidy of $1,376,110. The remaining deficit was reduced by revenue of $575,200 earned through OSTC's additional work with outside operating contracts and the $109,186 received in grants from various programs to cover the costs of completing the market study. Capital asset investment of $1,262,948 included a new marine evacuation system and other small equipment for the ferry and operations.



Financial Statements

For the year ended March 31, 2013

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Management's Responsibility

The Owen Sound Transportation Company Limited's management is responsible for the integrity and fair presentation of the financial statements and other information included in the annual report. The financial statements have been prepared in accordance with Canadian public sector accounting standards. The preparation of financial statements necessarily involved the use of management's judgment and best estimates, particularly when transactions affecting the current accounting period are based on projections into the future. 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.

Susan Schrempf
President & CEO
Owen Sound, Ontario
September 12, 2013

Auditor's Report

Effective March 31, 2009, the Office of the Auditor General ceased to be the Auditor of Record for OSTC. OSTC remains accountable to the Office of the Auditor General and must continue to submit completed annual financial audits to the AGO.

OSTC engaged the services of BDO Canada LLP for the audit of the financial year ended March 31, 2013, as the firm had been responsible for the audits on behalf of the Office of the Auditor General since 2002. The annual financial statements have been prepared in accordance with Canadian public sector accounting standards (PSAB).

Annual financial audit services for OSTC beginning with March 31, 2013 will be prepared in accordance with Canadian public sector accounting standards, which is a change from the previously used Canadian GAAP (generally accepted accounting principles).

BDO

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BDO Canada LLP
1717 2nd Avenue E, Third Floor
PO Box 397
Owen Sound ON N4K 5P7 Canada

Independent Auditor's Report

To the Members of The Owen Sound Transportation Company Limited

We have audited the accompanying financial statements of The Owen Sound Transportation Company Limited, which comprise the statement of financial position as at March 31, 2013 and the statements of operations and accumulated surplus, changes in net financial assets (debt) and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of The Owen Sound Transportation Company Limited as at March 31, 2013 and the results of its operations, changes in net financial assets (debt) and cash flows for the year then ended in accordance with Canadian public sector accounting standards.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants
Owen Sound, Ontario
September 12, 2013

The Owen Sound Transportation Company, Limited

Statement of Financial Position

March 31	2013	2012
Financial assets		
Cash and cash equivalents (Note 1)	$ **41,195**	$ 199,989
Accounts receivable (Note 2)	**2,197,848**	977,748
Inventory held for resale	**41,335**	48,526
	2,280,378	1,226,263
Liabilities		
Bank indebtedness (Note 3)	**55,196**	-
Accounts payable and accrued liabilities	**959,327**	309,676
Employee future benefit obligations (Note 5)	**987,852**	939,400
Workers' compensation obligations (Note 6)	**142,954**	85,053
	2,145,329	1,334,129
Net financial assets (debt)	**135,049**	(107,866)
Contingencies (Note 10)		
Non financial assets		
Inventory for own use	**19,340**	100,024
Tangible capital assets (Note 7)	**13,370,976**	12,808,974
	13,390,316	12,908,998
Accumulated surplus (Note 8)	$ **13,525,365**	$ 12,801,132

Approved on Behalf of the Company:

_______________ Chair

_______________ President & CEO

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

The Owen Sound Transportation Company, Limited

Statement of Operations and Accumulated Surplus

For the year ended March 31	2013 Budget (Note 9)	**2013 Actual**	2012 Actual
Revenues			
Vehicles	$ 2,814,202	$ **2,827,578**	$ 2,810,409
Ministry of Northern Development and Mines subsidy (Note 13 (a))	3,785,000	**2,609,541**	2,952,826
Passenger revenue	2,487,683	**2,468,956**	2,484,586
Cafeteria	732,311	**780,311**	734,876
Interest and other	495,805	**521,133**	527,388
Pelee Island ferry service management fee (Note 13 (b))	687,000	**495,200**	430,836
Tuck and terminal gift shop revenue	230,000	**227,961**	228,479
Market feasibility study	-	**109,186**	-
M.V. Manitou Island II ferry service management fee (Note 13 (c))	100,000	**80,000**	80,000
	11,332,001	**10,119,866**	10,249,400
Expenses			
Salaries and wages	4,028,000	**3,733,776**	3,666,888
General and administrative expenses	1,310,900	**1,279,588**	989,621
Fuel	1,657,000	**1,247,996**	1,512,862
Employee benefits	980,100	**880,255**	847,530
Amortization	-	**698,022**	786,257
Services	587,000	**628,004**	645,158
Repairs and maintenance	500,000	**559,857**	2,246,902
Utilities	196,000	**254,473**	181,893
Tools and operating supplies	107,000	**113,662**	124,409
	9,366,000	**9,395,633**	11,001,520
Annual surplus (deficit) (Note 9)	1,966,001	**724,233**	(752,120)
Accumulated surplus, beginning of the year	12,801,132	**12,801,132**	13,553,252
Accumulated surplus, end of the year	$ 14,767,133	**$ 13,525,365**	$ 12,801,132

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

Statement of Changes in Net Financial Assets (Debt)

For the year ended March 31		2013		2013		2012
		Budget (Note 9)		**Actual**		Actual
Annual surplus (deficit) (Page 15)	$	1,966,001	$	**724,233**	$	(752,120)
Acquisition of tangible capital assets		(1,985,000)		**(1,262,948)**		(35,283)
Amortization of tangible capital assets		-		**698,022**		786,257
Loss on the disposal of capital assets		-		**2,924**		-
		(1,985,000)		**(562,002)**		750,974
Change in inventories for own use		-		**80,684**		31,054
Increase (decrease) in net financial assets		(18,999)		**242,915**		29,908
Net debt, beginning of year		(107,866)		**(107,866)**		(137,774)
Net financial assets (debt), end of the year	$	(126,865)	$	**135,049**	$	(107,866)

Statement of Cash Flows

For the year ended March 31		**2013**		**2012**
Cash provided by (used in)				
Operating activities				
Annual surplus (deficit)	$	**724,233**	$	(752,120)
Items not affecting cash				
Amortization		**698,022**		786,257
Loss on disposal of capital assets		**2,924**		-
Change in workers' compensation obligations		**57,901**		(36,598)
Change in employee future benefit obligations		**48,452**		64,769
		1,531,532		62,308
Changes in non-cash working capital balances				
Accounts receivable		**(1,220,100)**		221,214
Inventory held for resale		**7,191**		29,875
Accounts payable and accrued liabilities		**649,651**		(281,582)
Inventory for own use		**80,684**		31,054
		1,048,958		62,869
Investing activities				
Purchase of capital assets		**(1,262,948)**		(35,283)
Financing activities				
Increase in bank indebtedness		**55,196**		-
Change in cash and cash equivalents during the year		**(158,794)**		27,586
Cash and cash equivalents, beginning of year		**199,989**		172,403
Cash and cash equivalents, end of year	$	**41,195**	$	199,989

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

Summary of Significant Accounting Policies

March 31, 2013

Nature of Business

The Owen Sound Transportation Company Limited ("OSTC"), an operational enterprise agency of the Province of Ontario, owns and operates a seasonal vehicle and passenger ferry, the M.S. Chi-Cheemaun, from Tobermory to Manitoulin Island. 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 (ONTC) to manage and operate the M.V. Niska I ferry service between Moosonee and Moose Factory Island.

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

Basis of Accounting

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

Revenues and expenses are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues as they become available and measurable; expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and the creation of a legal obligation to pay.

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.

Post-Employment Benefits

OSTC's eligible employees continue to participate in the defined benefit pension plan of the ONTC (OSTC's former parent). The contributions to the pension plan, a multi-employer defined benefit plan are expensed when due.

In addition, eligible employees are also entitled to non-pension post-retirement benefits such as group life, health care and long-term disability as part of the ONTC multiple employer group plan. The costs associated with these future benefits are actuarially determined using the projected benefits method pro-rated on service and best estimate assumptions.

Both pension and non-pension expenses consist of current service costs, interest and adjustments arising from plan amendments, changes in assumptions and net actuarial gains or losses. These expenses are recorded in the year in which employees render services to OSTC.

Employees hired after April 1, 2002 are not eligible to join the ONTC pension plan. OSTC has been negotiating to have these employees eligible to join retroactive to April 1, 2002. The benefit cost recorded on the financial statements is based on the actuarial estimate of the liability and are recorded in the period in which the employees render service to OSTC.

Summary of Significant Accounting Policies

March 31, 2013

Workplace Safety & Insurance Board	OSTC is a Schedule 2 employer with respect to workers' compensation benefits. As such OSTC recognizes its obligation for these future benefits on an accrual basis. The estimated future benefits are determined using actuarial calculations.
Revenue Recognition	a) Vehicle and passenger revenues are generally recognized on the date tickets are sold. b) Cafeteria, tuck and terminal gift shop and other revenue is recorded upon sale of goods or provision of service when collection is reasonably assured. c) Interest is recognized in the period earned. d) Government transfers are recognized in the financial statements as revenues in the period in which events giving rise to the transfer occur providing the transfers are authorized, and eligibility criteria have been met and reasonable estimates of the amounts can be made.
Cash and Cash Equivalents	Cash and cash equivalents include cash on hand and balances with banks.
Bank Indebtedness	Bank indebtedness includes short-term overdrafts.
Inventory	Inventory of goods held for resale is recorded at the lower of cost and net realizable value. Cost is determined based on a first-in first-out methodology. Inventory for own use is recorded at the lower of cost and replacement cost.
Tangible Capital Assets	Tangible capital assets are recorded at cost less accumulated amortization. Costs include all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. Amortization is calculated using the straight-line method over the estimated service lives of the assets. The estimated service lives for principal categories of assets are as follows: Land improvements 10 years Buildings and improvements 20 years Equipment and other 5 years Marine vessels 30 years
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.
Use of Estimates	Preparation of the financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Estimates are used when accounting for items such as accrued grant receivables, accrued liabilities, employee future benefits, workers' compensation obligations and useful life of tangible capital assets. By their nature, these estimates are subject to measurement uncertainty and actual results could differ from management's best estimates as additional information becomes available in the future.

Notes to Financial Statements

March 31

1. Cash and Cash Equivalents

	2013	2012
Cash on hand	$ **16,361**	$ 16,600
Bank	**13,794**	181,787
In transit	**11,040**	1,602
	$ **41,195**	$ 199,989

On March 31, 2013, the company had deposits of $398,800 in a Canadian Chartered bank. The Canadian Deposit Insurance Corporation insures deposits up to a maximum of $100,000 per depositor and per financial institution.

2. Accounts Receivable

	2013	2012
Ministry of Northern Development and Mines	$ **542,296**	$ 45,524
Ministry of Transportation	**1,305,114**	829,574
Other	**350,438**	102,650
	$ **2,197,84**	$ 9 7,748

3. Operating Loan - Credit Facility

	2013	2012
Bank indebtedness	$ **55,196**	$ -

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, 2013, the company had undrawn credit capacity under this facility of approximately $1,945,000.

4. Pension Agreements

The company makes contributions to the Contributory Pension Plan of the Ontario Northland Transportation Commission (the "Plan"), which is a multi-employer plan, on behalf of 16 members of its staff. This plan is a defined benefit plan which specifies the amount of the retirement to be received by the employees based on the length of service and rates of pay. Employees and employers contribute jointly to the plan. The employer amount contributed to the Plan for 2013 by the Owen Sound Transportation Company Limited was $45,356 (2012 - $77,554). Members contribute 4.20% of their earnings between the Year's Basic Exemption (YBE) and the Year's Maximum Pensionable Earnings (YMPE) as defined under the Canada Pension Plan plus 6.00% of all other earnings. No contributions are required if the Plan Member has 35 years or more of Pensionable Service and no further benefits accrue.

March 31, 2013

4. Pension Agreements - continued

The Plan is a multi-employer plan, therefore any pension plan surpluses or deficits are a joint responsibility of Ontario Northland Transportation Commission and other Plan members and their employees. As a result, the company does not recognize any share of the Plan's pension surplus or deficit. The last available report for the Plan was January 1, 2011. At that time the plan reported a $18.3 million actuarial deficit (2010 - $38.6 million actuarial surplus), based on actuarial liabilities of $464.8 million (2010 - $461.5 million) and actuarial assets of $446.5 million (2010 - $422.9 million). Ongoing adequacy of the current contribution rates will need to be monitored as the financial markets may lead to increased future funding requirements.

5. Retirement and Post-employment Benefit

The company provides certain benefits, including retirement benefits and other post-employment benefits, to its employees. The post-employment benefit at March 31 includes the following components:

	2013	2012
Non-pension post-retirement benefits	$ 766,852	$ 711,000
Accrued pension benefit	221,000	228,400
	$ 987,852	$ 939,400

Non-Pension Benefits

Payments for these benefits totalled $107,233 (2012 - $116,551) which include payments for current and retired employees. Actuarial valuations for accounting purposes are performed for the non-pension post retirement benefits using the projected benefit method, pro-rated on services. The most recent actuarial report was prepared as at March 31, 2013.

The actuarial valuation was based on a number of assumptions about future events, such as inflation rates, medical inflation rates, wage increases, employee turnover and mortality rates. The assumptions used reflect management's best estimates. The post-employment benefit liability was determined using a discount rate of 4.25% (2012 - 4.52%). For extended health care costs, an 6.3% annual rate of increase was assumed for 2013, decreasing to an ultimate rate of 4.0% per year for 2019. For dental costs, a 4.0% annual rate of increase was assumed.

	2013	2012
Current period benefit cost	$ 17,214	$ 16,265
Amortization of actuarial loss	27,070	2,177
Retirement benefit expense	44,284	18,442
Interest costs	42,579	34,829
Benefits paid	(31,011)	(29,627)
Total expense for the year	$ 55,852	$ 23,644

March 31, 2013

5. Retirement and Post-employment Benefit - continued

Accrued Pension Benefit

Employees hired after April 1, 2002 are not eligible to join the ONTC pension plan. OSTC has been negotiating to have these employees eligible to join retroactive to April 1, 2002. The estimated liability of the amount required to be transferred into the pension plan has been recorded in the period in which the employees earn the pension benefit.

Actuarial valuations for accounting purposes are performed for the pension benefits using the projected benefit method, pro-rated on services. The most recent actuarial report was prepared as at January 1, 2011.

The actuarial valuation was based on a number of assumptions about future events, such as inflation rates and wage increases. The assumptions used reflect management's best estimates. The post-employment benefit liability was determined using a discount rate of 5.75% (2012 - 5.00%).

	2013	2012
Total (recovery)/expense for the year	$ (7,400)	$ 41,125

6. WSIB Future Benefit and Commitment

As OSTC is an employer included under Schedule 2 of the Workplace Safety and Insurance Act, it self-insures the entire risk of its own WSIB claims and is individually liable for reimbursing the WSIB for all costs relating to its workers' WSIB claims.

	2013	2012
Accrued benefit obligation	$ 496,155	$ 85,053
Unamortized actuarial loss	(353,201)	-
WSIB future benefit	$ 142,954	$ 85,053

Actuarial valuations for accounting purposes are performed using the projected benefit method. The report prepared as at June 24, 2013, was the first actuarial valuation.

The actuarial valuation was based on a number of assumptions including, discount rates, wage increases, and WSIB payment rates. The assumptions used reflect management's best estimates. The WSIB benefit liability was determined using a discount rate of 4.00%, average lost time injury payment rate of 50%, a WSIB administrative rate of 36% and an average lost time injury count of 1.

	2013
Amortization of losses	$ 39,245
Current period benefit cost	33,728
Interest costs	19,091
Projected benefit payments	(34,162)
Total expense for the year	$ 57,902

March 31, 2013

7. Tangible Capital Assets

2013

	Land	Land Improvements	Buildings and Improvements	Equipment and Other	Chi-Cheemaun Ferry	Total
Cost, beginning of year	$ 76,100	$ 20,200	$ 1,439,697	$ 628,754	$ 24,153,780	$ 26,318,531
Additions	-	-	-	8,595	1,254,353	1,262,948
Disposals	-	-	-	(136,420)	(54,185)	(190,605)
Cost, end of year	76,100	20,200	1,439,697	500,929	25,353,948	27,390,874
Accumulated amortization, beginning of year	-	4,040	462,664	533,237	12,509,616	13,509,557
Amortization	-	1,010	72,674	35,354	588,984	698,022
Disposals	-	-	-	(136,420)	(51,261)	(187,681)
Accumulated amortization, end of year	-	5,050	535,338	432,171	13,047,339	14,019,898
Net carrying amount, end of year	$ 76,100	$ 15,150	$ 904,359	$ 68,758	$ 12,306,609	$ 13,370,976

2012

	Land	Land Improvements	Buildings and Improvements	Equipment and Other	Chi-Cheemaun Ferry	Total
Cost, beginning of year	$ 76,100	$ 20,200	$ 1,434,392	$ 601,956	$ 24,150,600	$ 26,283,248
Additions	-	-	5,305	26,798	3,180	35,283
Cost, end of year	76,100	20,200	1,439,697	628,754	24,153,780	26,318,531
Accumulated amortization, beginning of year	-	3,030	392,000	481,432	11,846,838	12,723,300
Amortization	-	1,010	70,664	51,805	662,778	786,257
Accumulated amortization, end of year	-	4,040	462,664	533,237	12,509,616	13,509,557
Net carrying amount, end of year	$ 76,100	$ 16,160	$ 977,033	$ 95,517	$ 11,644,164	$ 12,808,974

March 31, 2013

7. Tangible Capital Assets - (continued)

During the year, OSTC disposed of capital assets with a net book value of $2,924 for $Nil consideration.

At March 31, 2013, there were $1,216,369 (2012 - $Nil) Chi-Cheemaun Ferry capital assets that were not being amortized due to installation not being complete. The majority of this related to the new evacuation system which went into service in April 2013.

In 2013, OSTC purchased $1,227,056 (2012 - $32,121) worth of tangible capital assets with capital funding. Additional capital funding of $6,375 (2012 - $12,607) was received for projects that did not meet the capitalization requirements and were expensed as a result. OSTC used $35,892 (2012 - $3,162) of its own operating funds to cover additional capital costs.

8. Accumulated Surplus

Accumulated surplus consists of the following categories:

	2013	2012
Invested in tangible capital assets		
Tangible capital assets at cost less amortization	**$ 13,370,976**	$ 12,808,974
Unfunded WSIB benefits	**(142,954)**	(85,053)
Unfunded future employee benefits	**(987,852)**	(939,400)
General surplus (Note 9)	**1,285,195**	1,016,611
Accumulated surplus	**$ 13,525,365**	$ 12,801,132

9. Budgets

Under Canadian public sector accounting principles, budget amounts are to be reported on the consolidated statement of operations and accumulated surplus and changes in net financial assets (debt) for comparative purposes. The 2013 budget amounts for OSTC approved by the Board of Directors have been reclassified to conform to the presentation of the consolidated statements of operations and changes in net financial assets (debt). The following is a reconciliation of the budget approved by the Board of Directors.

	2013 Budget	**2013 Actual**	2012 Actual
Annual surplus (deficit) (Page 15)	$ 1,966,001	**$ 724,233**	$ (752,120)
Amortization	-	**698,022**	786,257
Change in unfunded liabilities	-	**106,353**	28,171
	1,966,001	**1,528,608**	62,308
Capital acquisitions, disposals and write-down	(1,985,000)	**(1,260,024)**	(35,283)
	(18,999)	**268,584**	27,025
Prior year general surplus	18,999	**1,016,611**	989,586
General surplus (Note 8)	$ -	**$ 1,285,195**	$ 1,016,611

March 31, 2013

10. Contingencies

a) OSTC has been named in a number of litigations resulting from a fatal plane crash at Pelee Island on January 17, 2004.
Georgian Express Ltd. operated the air service and as part of the agreement with OSTC maintained liability coverage of $20 million naming OSTC as an additional insured. In addition, Georgian Express Ltd. entered into an indemnity and save harmless agreement in favour of OSTC as part of the operating agreement.
The outcome of these claims are not determinable at the present time and, as a result, is not reflected in these financial statements. However, should the claim exceed the insurance coverage in place, OSTC will be indemnified by the Ministry of Transportation.

b) A claim has been filed against OSTC by an individual who fell on company premises in 2011. The claim is currently being assessed by OSTC's insurance company and the outcome is not determinable at the present time.

11. Commitments

OSTC has entered into a nominal cash transfer agreement with Ontario Northland Transportation Commission to transfer the M.V. Niska I ferry with a book value of $4.2 million and two parcels of land. The transfer is expected to be complete by October 2013.

12. Comparative Amounts

Comparative figures have been reclassified to conform to the current year's financial statement presentation.

13. Government Funding

a) Ministry of Northern Development and Mines

Under the terms of a memorandum of understanding with the Ministry of Northern Development and Mines, OSTC receives both operational and capital funding from the Province of Ontario. The operational subsidies are received for the Owen Sound operation based on an approved operating plan and are cash flowed to OSTC on a quarterly basis. These amounts totalled $1,350,000 (2012 - $1,000,000). In 2013, OSTC received an additional $26,110 in operating funds to cover specific operational projects. In 2013, OSTC received $Nil (2012 - $1,908,098) in dry dock funding. Capital subsidies are paid to OSTC on submission of invoices for capital items consistent with its approved capital plan. These amounts totalled $1,233,431 (2012 - $44,728). Capital and operating payments received during the year totalled $2,609,541 (2012 -$2,952,826).

b) Ministry of Transportation

OSTC has an agreement with the Ministry of Transportation to manage and operate the Pelee Island ferry service on Lake Erie between the ports of Kingsville, Leamington and Pelee Island in Ontario and the port of Sandusky in the State of Ohio. Pursuant to this agreement, OSTC received $495,200 in management fees for the 2012 sailing season.

The 5-year agreement ending March 2013 required the Ministry to pay the OSTC a management fee of $400,000 annually, adjusted by changes in the Consumer Price Index. The agreement also provided for OSTC to receive a project management fee of up to 3% of the value of vessel capital improvements which OSTC oversees on behalf of the Ministry of Transportation. The agreement remains enforced until the new agreement, currently under negotiation, is signed. The terms of the new agreement will be retroactively applied to April 1, 2013.

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

c) Ontario Northland Transportation Commission

OSTC signed an agreement with the Ontario Northland Transportation Commission to manage and operate the M.V. Manitou Island II (2012)/M.V. Niska I (2013) ferry service between Moosonee and Moose Factory Island for the period April 1, 2012 - March 31, 2013. OSTC received $80,000 in management fees for the 2012 sailing season.

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