# Ontario Northland Transportation Commission


2006 – 2007 Annual Report

Ontario Northland

Ontario Northland Transportation Commission
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Of special note:

This report covers Ontario Northland's 2006-2007 fiscal year, the twelve month period beginning April 1, 2006 and ending March 31, 2007.

Ontario Northland's 2005-2006 Annual Report covered a fifteen month period, from January 1, 2005 to March 31, 2006, as our year end was altered in 2006 in order to establish a year end consistent with that of the Province of Ontario.

# Table of Contents

Ontario Northland, an operational enterprise of the Province of Ontario, was established in 1902 and is a recognized leader in promoting sustainable economic growth by establishing and operating transportation and telecommunications links throughout northern Ontario.

Headquartered in North Bay and operating primarily in northeastern Ontario, Ontario Northland's non-commercial or provincially-mandated services include:

- the Little Bear (freight and passenger train service between Moosonee and Cochrane, with passenger connections to Iroquois Falls, South Porcupine and Timmins);
- the Moosonee barge (providing freight transportation services between Moosonee and the island of Moose Factory);
- the Northlander (passenger train service between Cochrane and Toronto, with connections to Driftwood, Hearst, Iroquois Falls, Kapuskasing, South Porcupine and Timmins); and
- the Polar Bear Express (summer excursion train between Cochrane and Moosonee).

**Commercial services include:**

- corporate realty;
- the Dream Catcher Express (fall excursion train between North Bay and Temagami);
- Ontera telecommunications services;
- rail car refurbishment services;
- rail freight services; and
- scheduled and charter motor coach services and Bus Parcel Express.

The Company boasts more than 1,000 employees, who live and work in northern Ontario and northwestern Quebec.


Celebrating Excellence
Be a part of recognizing the achievements of successful business people across Northern Ontario!
Welcome To Thunder Bay
Purchase your Gala Awards tickets today!
AWARDS
NORTH BAY

In 2006-2007, Ontario Northland continued to contribute significantly to the social and economic fabric of northern Ontario, while at the same time, making positive strides forward in our effort to achieve financial viability.

The skill and dedication of all Ontario Northland employees, coupled with the ongoing support and commitment of the Government of Ontario, resulted in many accomplishments over the past year, including:

- Providing transportation solutions to more than 345,000 passengers who rode on one of our motor coaches or passenger trains;
- Being awarded several telecommunications contracts, which will result in significant revenues over the next several years;
- Carrying more than 53,000 freight carloads over our 700 miles of track, including a significant volume of traffic between Cochrane and Moosonee as we worked to support the developing mining industry on the James Bay Coast;
- Working towards improvements in the train service we offer between Cochrane and Moosonee, which will result in the separation of our passenger and freight services in this region later this year; and
- Delivering refurbished cars of exceptional quality to our GO Transit clients, who commented that: “the quality of the cars being refurbished by Ontario Northland is top notch and the cars are absolutely stunning. This is a direct result of the pride that Ontario Northland employees put into their work.”

We continue to work towards achieving positive financial results as we progress through multi-year business and strategic plans directed towards future financial viability. Ontario Northland incurred a loss of $10.7 million for the year ended March 31, 2007. The Company recorded increases in operating revenues and expenses, as well as in non-operating expenses.

As we move forward, we remain committed to our mandate of connecting the North by providing transportation and telecommunications solutions, and to contributing to the economic prosperity of the region.

Sincerely,

Ted Hargreaves
Chair


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OCCAM

The President and CEO of the Company reports to the Ontario Northland Transportation Commission, comprised of a Chair and nine members, each of whom have been appointed by the Province of Ontario.

The Commission, in turn, reports to the Ministry of Northern Development and Mines and its Minister, who are responsible for overseeing the Company on behalf of the Province of Ontario.

## Commission Members

**Chair**

Ted Hargreaves, North Bay

**Commissioners**

Mathilde Bazinet, North Bay

Dan Belisle, Cochrane

René Fontaine, Hearst

Carson Fougère, North Bay

Margaret Hague, Spring Bay

Randy Kapashesit, Moose Factory

David Plourde, Kapuskasing

Donavon Porter, Haileybury

Lad Shaba, Chaput Hughes

## Principal Officers

Steve Carmichael – President and CEO

Grant Bailey – Vice President of Rail

Kevin Donnelly – Vice President of Finance and Administration

Paul Goulet – Vice President and General Manager of Ontera (Appointed September 2006)

Marc Rancourt – President and General Manager of Ontera (To October 2006)

Cheryl Sutton – Vice President of Passenger Services

Russ Thompson – Counsel

Ontario Northland's Corporate Services Division is comprised of various departments, which provide centralized services and support to the Company, and our internal and external stakeholders, in the areas of:

- Corporate Realty
- Finance
- Human Resources
- Information Technology (IT)
- Legal
- Property Management
- Public Relations
- Purchasing
- Strategic Planning

## Accomplishments

- **Improved Planning Process**

  We continued to work on improved communication and employee involvement in the annual business planning process in order to ensure more effective strategies and tangible results.

- **Proactive Approach to Health and Safety**

  Health and safety efforts at the Company continued to progress this year, as all divisions worked to proactively address health and safety concerns, resulting in a reduction in injury severity. In addition, in light of our ageing workforce, we are increasingly focusing on preventative activities to reduce the frequency and reoccurrence of injury.

- **Introduction of a Wellness Program**

  The Company introduced a wellness program, which offers employee education to promote good health, nutrition and fitness. We are also proud to support and encourage the involvement of our employees in community activities, which benefit their overall well-being.

- **New IT Applications to Support Operational Divisions**

  Our IT Department continued to work with operational divisions to develop IT applications to improve efficiencies. Specifically, we worked with the Refurbishment Division on enhancements to the resource planning system and with our Rail Division on a system to enhance operations in our Rail Traffic Control office. We have also been developing an advanced ticketing, reservation and revenue accounting system for use in Passenger Services and were able to successfully test the system with the Dream Catcher Express excursion product. We look forward to introducing this system to widespread use next year.

- **Energy Efficient Solutions**

  Over the last several years, our Property Management Department has implemented smart, energy efficient solutions to reduce our energy consumption and increase the comfort of our employees. These initiatives include: proactive maintenance for heating and ventilation systems; the use of a water coil to cool building air, rather than air conditioning; and the use of a radiant heat system and boiler controls. These solutions are better for both employees and the environment, and offer costs savings to the Company.

## Challenges

- **Cash Flow Concerns**

  Ontario Northland continued to face significant cash flow challenges in 2006-2007. As a result, capital spending was restricted.

- **Cost-Saving Measures**

  As the result of the shut down of one of our key rail freight clients, lower than expected revenues within our telecommunications division, and the curtailment of our haulage agreement with CN, cost-saving measures were implemented.

- **Increased Efficiencies**

  We continue to search for increased efficiencies within our operations and as well, to provide support to our operating divisions in their efforts to service the needs of our northern customers.

Ontera, a fully integrated telecommunications company, offers a wide range of telecommunications and IP-based solutions including Internet, long distance, voice, data and information technology services throughout Northern Ontario.

## Accomplishments

- **More than 25,000 Customers**

  We provide northern-based telecommunications services and solutions to more than 25,000 personal and business customers, in communities throughout northern Ontario. Our coverage area encompasses more than 200,000 km$^2$ and 550,000 people.

- **New Reciprocal Agreement with TELUS**

  Ontera and TELUS agreed in July 2006 to the amicable conclusion of our strategic alliance agreement and instead, have entered into a new reciprocal agreement. The essence of the new agreement is that we will now consider each other partners of choice for at least the next three years. The change to the strategic alliance agreement was precipitated by the strength of Ontera's brand in the marketplace and, will result in substantial savings for Ontera.

- **Focus on Engineering**

  Ontera's strategic direction has been refocused on engineering, rather than marketing, as we work to capitalize on wholesale opportunities and focus on providing the backbone for telecommunications services in northern Ontario.

- **Smart Systems for Health Agency (SSHA)**

  SSHA, Hydro One Telecom (HOT) and Ontera, which are all operational enterprises of the Government of Ontario, have joined together in a unique agency-to-agency procurement model to meet the telecommunications needs of SSHA and the medical community of Ontario. Ontera has been selected to provide connectivity and network management for Local Health Integration Network (LHIN) 13, a geographical unit within northeastern Ontario, comprising 72 health service provider sites requiring a high bandwidth and dedicated private fibre-based network. Additionally, Ontera has been selected as prime in partnership with TBay Tel to implement LHIN 14 in northwestern Ontario for a combined total of 117 healthcare facilities across the north.

- **Softswitch Telecommunications Technology System**

  Ontera is in the process of implementing a new softswitch telecommunications technology system that will enable us to offer local telephone services to residential, business and other carrier markets over an IP-based (Internet Protocol) services platform. The project will result in Ontera installing our softswitch hardware in two of northern Ontario's largest urban centres. It will also allow us to offer customers advanced voice services with improved quality and efficiency, at a lower cost.

- **NEOnet**

  NEOnet (the Northeastern Ontario Communications Network Inc.) awarded a $5.5 million contract to expand broadband services to Ontera, which will see us implement high speed Internet service in currently underserviced communities in the Timiskaming District and Gogama-Foleyet area. At its completion, nearly 3,000 additional residences, businesses and public sector entities throughout northeastern Ontario will have the opportunity to benefit from this project.

## Challenges

- **Change in Focus**

  As Ontera changes from a marketing-based to an engineering-based focus, we are necessarily challenged to restructure our operations as we work to capitalize on this business opportunity.

- **Investment in Infrastructure**

  With our new engineering-based focus, and given the ever-improving nature of telecommunications technology, significant investments in infrastructure are required.

- **Diversity**

  There exists a need to protect essential telecommunications services in northern Ontario with a diverse network topology. This diversity refers to creating a self healing network to ensure the reliable and continuous flow of voice and data during equipment or network failures and would eliminate the single points of failure that exist today.

Ontario Northland's Passenger Services Division serves the needs of all of our passengers and encompasses both our Motor Coach Services and Rail Passenger Services Departments.

## Motor Coach Services

Our Motor Coach Services Department operates a fleet of 25 highway motor coaches that provide scheduled service between Hearst and Toronto, along the Highway 11 corridor which passes through Cochrane and North Bay, and along the Highway 69 corridor, which passes through Timmins and Sudbury. Our scheduled bus service is an affordable and reliable way to travel to and from northeastern Ontario.

We also offer charter and tour services for groups traveling throughout Canada, along with Bus Parcel Express (BPX) services. BPX is a shipping service which offers station-to-station delivery of envelopes and parcels, often on the same day. The transportation of these parcels is handled through scheduled motor coach service routes, with connections across the continent offered through partnerships with other carriers.

## Rail Passenger Services

Our Rail Passenger Services Department is responsible for the operation of our four passenger trains: the Dream Catcher Express, the Little Bear, the Northlander and the Polar Bear Express.

The Little Bear, Northlander and Polar Bear Express are operated as non-commercial (provincially-mandated) services.

## Accomplishments

- **More Than 345,000 Passengers Each Year**

  In 2006-2007, more than 345,000 passengers traveled aboard either one of Ontario Northland's highway motor coaches or on one of our four passenger trains.

- **Motor Coach Ridership**

  Ridership on our scheduled motor coach service decreased by 1.2% to 264,150 (versus the previous 12-month period). Charter days decreased by 10.2%, to 756, as a result of reduced availability of coaches for charter due to needs within our scheduled service and as well, our preventative maintenance program, designed to extend the life of our coaches. Three new coaches were leased this year, allowing us to retire two ageing coaches and as well, add to our capacity.

- **Ridership on Passenger Trains**

  Ridership on our Little Bear train was exceptionally strong this year, with an increase of 10.2% over the previous 12 month period, to 38,157 passengers. This growth can be attributed, in part, to increased mining activity on the James Bay Coast. In 2006, the Polar Bear Express season was shortened to nine weeks, versus the traditional ten; ridership on the train continued to decline, by 9.5% (adjusted for the shorter season) to 8,497 passengers. Northlander ridership remained relatively steady at 34,960 passengers, an increase of 0.8%, following a surge in the previous year as the result of a change in schedule.

- **Changes to Train Service Between Moosonee and Cochrane**

  One of the key recommendations of our Little Bear Review committee was the separation of our passenger and freight train services between Moosonee and Cochrane. In March 2007, the Government of Ontario announced, as part of its budget, its support for improvements to train services in the North. As a result of this investment by the Government, we will be separating our passenger and freight services between Moosonee and Cochrane later in the year.

- **New Motor Coach Maintenance and Administration Facility**

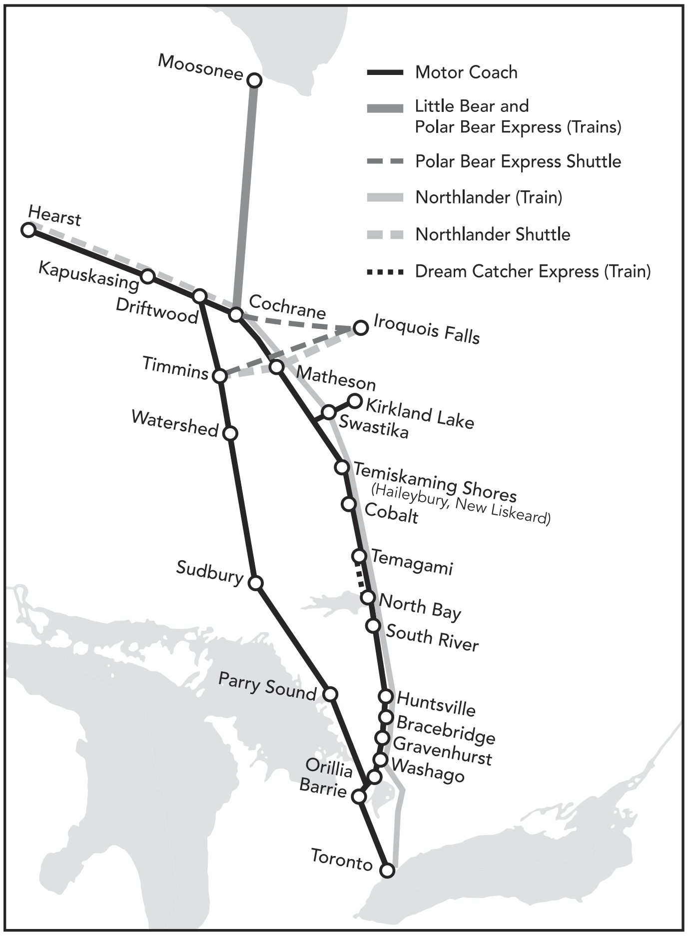
  In May 2006, we hosted the official opening of our new $2.3 million Motor Coach Maintenance and Administration Facility in North Bay. With this new, 14,000 ft$^2$ facility, we are now able to perform full maintenance on all of our motor coaches and offer maintenance services to our partners within the motor coach industry.

- **Santa Claus Express**

  Nearly 5,000 children from 13 northeastern Ontario and northwestern Quebec communities enjoyed their ride to the North Pole and visit with Santa Claus on Ontario Northland's Santa Claus Express. The train, which has operated in northern communities for more than 20 years, was generously supported by our employee and community volunteers, unions, and the Ontario Northland Employees Benefits Association.

- **Dream Catcher Express**

  The Dream Catcher Express enjoyed a successful second season, welcoming 725 passengers over six days. The Dream Catcher Express is an exciting train excursion between North Bay and Temagami. In partnership with local hospitality operators, the Dream Catcher Express offers passengers a variety of unique experiences including the romance of rail travel, vibrant fall colours and a sampling of aboriginal culture. Passengers, once again, had an overwhelmingly positive experience, with 98.5% saying they would recommend the excursion to others.

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## Challenges

- **Changes to Train Service Between Moosonee and Cochrane**

  We are anxious to implement the recommendations of our Little Bear Review committee by separating our passenger and freight services between Moosonee and Cochrane later in the year. The creation and implementation of this new service remains a challenge as we work to meet the needs of our customers.

- **Decreasing Population in Northeastern Ontario**

  The decreasing population in northeastern Ontario continues to present challenges in terms of maintaining and growing ridership on both our passenger trains and motor coaches.

- **Fuel Costs**

  Fuel prices have stabilized however, they remain high and continue to negatively affect our expenses. As a result, we continue to apply a fuel surcharge, originally implemented in 2005, to passenger fares in order to generate additional revenues to counter these rising costs.

- **Motor Coach Equipment**

  Our Motor Coach Services Department remains challenged to maintain our ageing fleet of motor coaches. The lease of three new coaches and the retirement of two older coaches has assisted us in our efforts, as has our proactive, preventative maintenance program which enables us to maximize the useful life of our coaches. The demand for coaches continues to exceed their availability and as such, our scheduling has become increasingly important as we work to use our resources efficiently and effectively.

- **Attracting Tourists**

  We continue to face challenges in attracting tourists to ride our Polar Bear Express train, in the face of increasingly affordable and accessible travel options.

Ontario Northland operates a 700 mile rail system which spans from Moosonee in the north to North Bay in the south, from Calstock (just west of Hearst) in the west to Rouyn-Noranda, Quebec in the east, on which we operate both passenger and freight trains.

Our rail system connects with Canada's two transcontinental rail carriers (CN and CP) at various locations, allowing us to provide seamless transportation solutions throughout North America in cooperation with our industry partners.

## Passenger Trains

Our Rail Services Division is responsible for the physical operation of our four passenger trains.

## Freight Services

The Rail Services Division is primarily engaged in providing rail freight services for the transportation of minerals, forest products, chemicals, petroleum and other products to and from northeastern Ontario and northwestern Quebec. In addition to carload rail freight, we operate express freight services between Moosonee and Cochrane.

Most carload freight shipments are moved on regularly scheduled freight trains connecting with other Canadian railways: Canadian National (CN) and Canadian Pacific (CP). Ontario Northland is part of a North American network of railways providing freight services to and from locations throughout North America, including import/export traffic from seaports. Special train movements for heavy or dimensional loads are also handled by Ontario Northland.

Our experienced employees ensure quality transportation of both passengers and freight and are responsible for the maintenance of both our track and equipment. Beyond providing maintenance to our own equipment, our contract shops in North Bay and Cochrane also provide service to external customers.

## Accomplishments

- **53,000 Carloads; 700 Miles of Track; 27 Engines**

  Our rail freight operations carry more than 53,000 carloads each year, throughout our 700 mile rail system which spans from Moosonee in the north to North Bay in the south, from Calstock (just west of Hearst) in the west to Rouyn-Noranda, Quebec in the east. We have a fleet of 27 engines to service both our passenger and freight services.

- **Strong Freight Traffic Between Moosonee and Cochrane**

  Construction of the DeBeers Victor diamond mine continued to provide significant volumes of additional freight traffic between Cochrane and Moosonee. The majority of this traffic was handled during the winter road season between late December 2006 and March 2007.

- **Improved Customer Service**

  Over the last two years, we have implemented automated systems to enhance the levels of service that we offer to our rail freight customers. Our RailConnect system has introduced a greater level of electronic communication for moving and managing our clients' shipments. It has enhanced our operating, customer interaction and revenue settlement processes, allowing us to offer more accurate and timely shipping information to our clients so that they may react in the face of an increasingly competitive marketplace.

- **Movement of a One Million Pound Ontario Hydro Transformer**

  In the winter of 2007, Ontario Northland made its largest single move ever – from both a size and a revenue perspective. In cooperation with CN, our Rail Division helped Ontario Hydro move their one million pound (500 ton) transformer from Pickering to Fraserdale, Ontario (north of Cochrane, en route to Moosonee). This was an extremely specialized move and required the use of a rail car featuring multiple axles to appropriately spread the weight of the transformer, in addition to work on track and bridges to ensure that our infrastructure could withstand the load.

- **Committed to Apprenticeship Training Opportunities**

  Skilled trades people are essential to the success of Ontario Northland. We recognize the value of apprenticeship programs and have offered apprenticeship training opportunities for more than 50 years. We currently employ 28 apprentices in the following trades: blacksmiths, diesel mechanics (machinists), electricians, pipefitters and railway car mechanics. In addition, we have been working alongside the Ministry of Training, Colleges and Universities, Canadore College, Mohawk College and other rail industry representatives towards the establishment of a curriculum for the newly accredited Railway Car Mechanic Apprenticeship program.

- **Commitment to Rail Safety**

  We continue to work with Operation Lifesaver, a national public education program sponsored by the Railway Association of Canada (RAC) and Transport Canada, which works in cooperation with various other stakeholders to create safety-conscious attitudes toward railways with a goal of fewer collisions, fatalities and injuries. We regularly make presentations at schools and to emergency services personnel, and initiate public safety advertising campaigns throughout our region. For instance, in 2006, we worked with Haileybury emergency services personnel to stage a mock incident in order to better prepare both their personnel and ours in the event of an emergency.


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## Challenges

- **Fuel Costs**

  High fuel costs continue to affect the bottom line, contributing to higher than budgeted expenses. In 2006, we introduced an ancillary fuel charge to our freight customers in order to offset the increase in expenses.

- **Challenging Northeastern Ontario Economy**

  The industrial landscape of northeastern Ontario provides for a limited number of significant rail freight clients for Ontario Northland. The economic downturn in the forestry sector has resulted in a reduction in traffic from our forestry industry clients, and one of our significant clients in Smooth Rock Falls closed down in 2006.

- **Changes to CN Haulage Agreement**

  Due to a change in direction, CN opted to cancel a portion of the haulage agreement covering our haulage of their traffic between Rouyn-Noranda and North Bay. This resulted in haulage traffic being below budget for the 2006-2007 fiscal year and the loss of this revenue going forward into future years. The agreement covering our haulage of CN traffic between Rouyn-Noranda and Hearst remains in place.

- **Northlander Performance**

  Ontario Northland continues to face on time performance challenges with the Northlander passenger train, particularly on the CN track between North Bay and Toronto. CN owns this trackage and runs a high volume freight operation on this core main route, resulting in numerous delays to the Northlander passenger train.

- **Equipment**

  Our passenger equipment is ageing and requires refurbishment in order to modernize its appearance and improve both accessibility and comfort.

- **Derailment North of Englehart**

  On March 30, 2007, an Ontario Northland freight train derailed approximately 10 miles north of Englehart, in the Township of Chamberlain. No one was injured in the incident however, 22 cars derailed – seven cars carrying various commodities and 15 sulphuric acid cars, five of which were leaking. An immediate, effective clean-up, repair and remediation effort ensued.

Ontario Northland offers refurbishment services to the passenger and freight car industry and, in 2006, the Refurbishment Division was created to reflect the expertise that we have developed and our intent to grow this area of business.

We boast highly-skilled and experienced personnel, as well as outstanding resources and facilities that include a 61,050 $ft^2$ car shop and a state-of-the art paint facility. In addition, we have a proven track record for an exceptional level of quality of workmanship.

Our capabilities span from the complete disassembly of cars, to rebuilding them from the frame up. We have expertise in upgrading both electrical and mechanical systems, completing truck overhauls, and also offer interior design and layout services.

## Accomplishments

- **Work on GO Transit Contract Progressing Well**

  Work to refurbish up to 121 GO Transit commuter cars is progressing well, as 20 completely refurbished cars had been delivered as of March 31, 2007. Representatives from GO Transit have commented that: “the quality of the cars being refurbished by Ontario Northland is top notch and the cars are absolutely stunning. This is a direct result of the pride that Ontario Northland employees put into their work.” In addition, they have commented that they challenge “anyone to distinguish between an Ontario Northland refurbished car and a new car.”

- **Resource Planning System**

  In cooperation with our IT Department, we have developed a proprietary, computer-based refurbishment resource planning system that allows us to track parts, tasks, drawings and work procedures. This system also automatically creates day-to-day scheduling to ensure that personnel, equipment, work facilities and parts resources are utilized in a most effective and efficient manner.

## Challenges

- **Capacity of Paint Facility**

  Our current painting facility does not provide adequate capacity for the painting of GO Transit project parts and rolling stock not associated with the current GO Transit project.

- **Maintaining Production Schedule**

  The production schedule for the refurbishment of GO Transit cars is extremely tight and we remain challenged to ensure that production requirements are met.

The Ontario Northland Transportation Commission incurred a loss for the year ended March 31, 2007 of $10.7 million, compared to a loss of $15.3 million for the preceding fifteen month period. The change in length of the fiscal period accounted for the largest changes, year over year.

Total revenues, adjusted for the change in year end, rose by approximately $10.6 million. The bulk of the increase came from the Refurbishment, with an adjusted increase of $9.2 million. The balance of the increase came from Rail and Motor Coach Services offset by a slight decline in telecommunications revenues.

Total operating expenses increased by $7.6 million on an adjusted basis, driven primarily by increased adjusted expenses of $12.4 million associated with Refurbishment as volume of production increased. Rail, Motor Coach Services and Ontera all experienced declines in operating expenses, again on an adjusted basis.

Non-operating expenses, after adjusting for the change in year end, increased slightly. Increased pension and non pension accounting expenses, as well as higher interest expenses were offset by decreased amortization and higher gains on sale of property, plant and equipment.

On the balance sheet, total assets decreased some $12 million, driven mainly by reductions in capital assets, accounts receivable, development costs and accrued pension benefit asset. These declines were offset by marginal increases in inventory, prepaid expenses and the self insurance fund assets. From a liabilities and equity perspective, most items exhibited declines with the exception of:

- Contributed surplus increasing with additional recapitalization of assets utilized in the provision of non commercial services; and
- Accrued non pension benefit obligation increasing with charges to operations noted earlier.

Additionally, retained earnings declined as a result of the loss from operations during the fiscal period.

Kevin Donnelly
Vice President of Finance and Administration

The Ontario Northland Transportation Commission's management is responsible for the integrity and fair presentation of the consolidated financial statements and other information included in the annual report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements necessarily involves 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 consolidated financial statements.

The Commission 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 consolidated financial statements have been reviewed by the Commission's Audit and Finance Committee and have been approved by its Governing Board of commissioners. In addition, the consolidated financial statements have been audited by the Auditor General of Ontario, whose report follows.

T. Hargreaves
Chair

S. Carmichael
President and CEO

North Bay, Ontario
May 31, 2007

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

***Auditor's Report***

To the Ontario Northland Transportation Commission
and the Minister of Northern Development and Mines

I have audited the consolidated balance sheet of the Ontario Northland Transportation Commission as at March 31, 2007 and the consolidated statements of investment by the Province of Ontario, operations and retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these consolidated financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
May 31, 2007

Jim McCarter, CA
Auditor General
Licensed Public Accountant

# Consolidated Balance Sheet

**(dollars in thousands)**

| | | March 31 2007 | | March 31 2006 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current** | | | | |
| Cash and cash equivalents | $ | **-** | $ | 1,340 |
| Accounts receivable (Net of allowance - $1,452; 2006 - $1,282) | | **17,831** | | 20,854 |
| Inventory | | **18,876** | | 18,614 |
| Prepaid expenses | | **1,219** | | 1,098 |
| | | **37,926** | | 41,906 |
| **Development costs** (Note 1) | | **5,649** | | 6,095 |
| **Self-Insurance Fund** (Note 2) | | | | |
| **- Market value $6,294;** (2006 - $6,004) | | **6,294** | | 6,004 |
| **Investment in property, plant and equipment** (Schedule 1) | | **261,425** | | 266,058 |
| **Accrued pension benefit asset** (Note 4) | | **74,343** | | 77,278 |
| | $ | **385,637** | $ | 397,341 |
| **Liabilities and Province of Ontario Equity** | | | | |
| **Current** | | | | |
| Bank Indebtedness | $ | **505** | $ | - |
| Operating line of credit (Note 3) | | **15,000** | | 15,000 |
| Accounts payable and accrued liabilities | | **29,419** | | 31,799 |
| Current portion of long-term debt (Note 5a) | | **4,509** | | 4,308 |
| Current portion of capital lease obligations (Note 5b) | | **276** | | 1,574 |
| Current portion of deferred revenue | | **2,726** | | 3,101 |
| | | **52,435** | | 55,782 |
| **Deferred revenue** (Note 6) | | **2,939** | | 5,120 |
| **Provision for Self-Insurance** (Note 2) | | **6,294** | | 6,004 |
| **Long-term debt** (Note 5a) | | **27,769** | | 30,540 |
| **Capital lease obligations** (Note 5b) | | **292** | | 523 |
| **Accrued Non-Pension Benefit Obligation** (Note 4) | | **57,969** | | 56,369 |
| | | **147,698** | | 154,338 |
| **Contingencies** (Note 10) / **Commitments** (Note 11) | | | | |
| **Province of Ontario Equity** | | | | |
| Investment by the Province of Ontario | | **109,583** | | 103,979 |
| Retained earnings | | **128,356** | | 139,024 |
| | | **237,939** | | 243,003 |
| | $ | **385,637** | $ | 397,341 |

Approved on behalf of the Commission:

____________________ Chair

____________________ President and CEO

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

# Consolidated Statement of Investment by the Province of Ontario

**(dollars in thousands)**

| | **year ended March 31, 2007** | 15-month period ended March 31, 2006 |
|---|---|---|
| **Balance**, beginning of period | | |
| Net investment in property, plant and equipment | **$ 34,753** | $ 24,447 |
| Net investment other than share capital | **69,226** | 48,949 |
| | **103,979** | 73,396 |
| **Net changes during the period** | | |
| One-time investment from Province of Ontario (Note 13) | **-** | 20,277 |
| Contributions from Province of Ontario | **7,397** | 11,911 |
| Retirements | **-** | (102) |
| Amortization | **(1,793)** | (1,503) |
| | **5,604** | 30,583 |
| **Balance**, end of period | | |
| Net investment in property, plant and equipment | **40,357** | 34,753 |
| Net investment other than share capital | **69,226** | 69,226 |
| | **$ 109,583** | $ 103,979 |

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

# Consolidated Statement of Operations and Retained Earnings

**(dollars in thousands)**

| | **year ended March 31, 2007** | 15-month period ended March 31, 2006 |
|---|---|---|
| **Revenues** (Schedule 2) | **$ 144,471** | $ 167,336 |
| **Expenses** (Schedule 2) | **133,534** | 157,408 |
| **Income from operations, before other revenues and expenses** | **10,937** | 9,928 |
| **Other revenues and expenses** | | |
| Amortization (Schedule 2) | **12,916** | 16,904 |
| Pension/non-pension expense (Schedule 2 and Note 4) | **6,654** | 6,042 |
| Interest expense (Schedule 2) | **2,699** | 2,448 |
| Investment and other income | **(9)** | (17) |
| Gain on sale of property, plant and equipment (Schedule 2) | **(655)** | (168) |
| **Net expenses** | **21,605** | 25,209 |
| **Net loss for the period** | **(10,668)** | (15,281) |
| **Retained earnings**, beginning of period | **139,024** | 154,305 |
| **Retained earnings**, end of period | **$ 128,356** | $ 139,024 |

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

**(dollars in thousands)**

| | year ended March 31, 2007 | 15-month period ended March 31, 2006 |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Loss | **$ (10,668)** | $ (15,281) |
| Items not affecting cash | | |
| Amortization (Schedule 2) | **12,916** | 16,904 |
| Gain on disposal of property, plant and equipment | **(655)** | (168) |
| Development costs | **446** | - |
| Deferred revenue | **(2,181)** | - |
| Pension/non-pension expense (Note 4) | **6,654** | 6,042 |
| | **6,512** | 7,497 |
| Changes in non-cash working capital balances | | |
| Accounts receivable | **3,023** | (1,078) |
| Inventory | **(262)** | (6,127) |
| Prepaid expenses | **(121)** | (98) |
| Accounts payable and accrued liabilities | **(2,380)** | 2,136 |
| Deferred revenue | **(375)** | 1,866 |
| | **6,397** | 4,196 |
| **Investing activities** | | |
| Investment in property, plant and equipment | **(12,347)** | (23,939) |
| Proceeds from sale of property, plant and equipment | **1,711** | 622 |
| Development costs | **-** | (5,520) |
| Decrease in other assets | **(180)** | (181) |
| | **(10,816)** | (29,018) |
| **Financing activities** | | |
| Bank Indebtedness | **505** | - |
| Long-term debt (Note 5a) | **(2,570)** | 4,997 |
| Capital lease obligations (Note 5b) | **(314)** | (305) |
| Contributions from the Province of Ontario | **7,397** | 32,188 |
| Operating line of credit | **-** | (12,000) |
| Deferred revenue | **-** | 2,227 |
| Other liabilities | **(1,939)** | (1,955) |
| | **3,079** | 25,152 |
| **Change in cash and cash equivalents during the period** | **(1,340)** | 330 |
| **Cash and cash equivalents**, beginning of period | **1,340** | 1,010 |
| **Cash and cash equivalents**, end of period | **$ -** | $ 1,340 |
| **Supplemental disclosure of cash flow information:** | | |
| Interest paid during the period and included in net loss | **$ 2,699** | $ 2,566 |

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

# Consolidated Statement of Investment in Property, Plant and Equipment

## Schedule 1

**(dollars in thousands)**

| | Cost | Accumulated Amortization | **March 31, 2007** **Net Book Value** | March 31, 2006 Net Book Value |
|---|---|---|---|---|
| **Rail Services** | | | | |
| Roadway | $ 240,986 | $ 96,823 | **$ 144,163** | $ 144,149 |
| Buildings | 39,629 | 15,650 | **23,979** | 23,767 |
| Equipment | 73,462 | 43,002 | **30,460** | 31,536 |
| Equipment under capital lease | 1,022 | 45 | **977** | 938 |
| Under construction | 4,336 | - | **4,336** | 1,971 |
| **Telecommunications (Ontera)** | | | | |
| Equipment | 143,851 | 101,624 | **42,227** | 39,459 |
| Buildings | 5,750 | 3,819 | **1,931** | 2,024 |
| Under construction | 303 | - | **303** | 6,509 |
| **Motor Coach Services** | | | | |
| Coaches | 9,958 | 4,971 | **4,987** | 6,949 |
| Buildings | 2,696 | 47 | **2,649** | 110 |
| Under construction | - | - | **-** | 2,443 |
| **Refurbishment** | | | | |
| Equipment | 547 | 28 | **519** | 535 |
| Buildings | 3,305 | 150 | **3,155** | 3,240 |
| **Marine Services (Moosonee)** | | | | |
| Vessels | 385 | 337 | **48** | 58 |
| Under construction | 42 | - | **42** | 35 |
| **Development** | | | | |
| Land and buildings | 2,851 | 1,202 | **1,649** | 1,685 |
| Land held for resale | - | - | **-** | 650 |
| | $ 529,123 | $ 267,698 | **$ 261,425** | $ 266,058 |

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

# Consolidated Schedule of Operating Revenues and Expenses

## Schedule 2

**(dollars in thousands)**

| | **year ended March 31, 2007** | 15-month period ended March 31, 2006 |
|---|---|---|
| **Rail Services** | | |
| Sales revenue (Notes 9 and 15) | **$ 72,737** | $ 88,690 |
| Government reimbursement (Note 7) | **18,551** | 23,771 |
| Operating revenue | **91,288** | 112,461 |
| Operating expense | **76,048** | 97,317 |
| Operating income | **15,240** | 15,144 |
| Amortization | **7,699** | 9,524 |
| Pension/non-pension expense (Note 4) | **4,297** | 3,807 |
| Gain on sale of property, plant and equipment | **(647)** | (250) |
| Interest expense | **1,278** | 1,488 |
| Income from operations | **2,613** | 575 |
| **Telecommunications (Ontera)** | | |
| Sales revenue (Note 8) | **30,074** | 38,023 |
| Operating expense | **28,206** | 39,533 |
| Operating (loss) income | **1,868** | (1,510) |
| Amortization | **4,194** | 6,009 |
| Pension/non-pension expense (Note 4) | **1,065** | 967 |
| Loss on sale of property, plant and equipment | **-** | 4 |
| Loss from operations | **(3,391)** | (8,490) |
| **Motor Coach Services** | | |
| Sales revenue | **11,530** | 13,764 |
| Operating expense | **9,415** | 12,306 |
| Operating income | **2,115** | 1,458 |
| Amortization | **616** | 932 |
| Pension/non-pension expense (Note 4) | **399** | 363 |
| Loss on sale of property, plant and equipment | **-** | 110 |
| Interest expense | **140** | - |
| Income from operations | **960** | 53 |
| **Refurbishment** | | |
| Sales revenue | **10,870** | 2,128 |
| Operating expense | **13,470** | 1,303 |
| Operating (loss) income | **(2,600)** | 825 |
| Amortization | **82** | 95 |
| Pension/non-pension expense (Note 4) | **427** | 483 |
| Interest expense | **466** | 247 |
| (Loss) income from operations | **(3,575)** | - |

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

**(dollars in thousands)**

| | **year ended March 31, 2007** | 15-month period ended March 31, 2006 |
|---|---|---|
| **Marine Services (Moosonee)** | | |
| Sales revenue | **146** | 107 |
| Government reimbursement (Note 7) | **49** | 229 |
| Operating revenue | **195** | 336 |
| Operating expense | **270** | 174 |
| (Loss) income from operations | **(75)** | 162 |
| **Rental Properties** | | |
| Sales revenue | **514** | 624 |
| Operating expense | **281** | 381 |
| Operating income | **233** | 243 |
| Amortization | **37** | 46 |
| Gain on sale of property, plant and equipment | **(8)** | (32) |
| Income from operations | **204** | 229 |
| **Administration** | | |
| Operating revenue | **-** | - |
| Operating expense | **5,844** | 6,394 |
| Operating loss | **(5,844)** | (6,394) |
| Amortization | **288** | 298 |
| Pension/non-pension expense (Note 4) | **466** | 422 |
| Interest expense | **815** | 713 |
| Loss from operations | **(7,413)** | (7,827) |
| **Total Operations** | | |
| Sales revenue | **125,871** | 143,336 |
| Government reimbursement (Note 7) | **18,600** | 24,000 |
| Total revenues | **144,471** | 167,336 |
| Expenses | **133,534** | 157,408 |
| Income from operations | **10,937** | 9,928 |
| Amortization | **12,916** | 16,904 |
| Pension/non-pension expense (Note 4) | **6,654** | 6,042 |
| Interest expense | **2,699** | 2,448 |
| Gain on sale of property, plant and equipment | **(655)** | (168) |
| **Loss from operations** | **$ (10,677)** | $ (15,298) |

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

**March 31, 2007**

**Nature of Business**

The Ontario Northland Transportation Commission, an Operational Enterprise of the Ontario government, delivers a variety of commercial and non-commercial services, including rail freight, passenger rail, motor coach and telecommunications primarily in the northeastern portion of Northern Ontario.

**Basis of Accounting**

These consolidated financial statements are prepared by management in accordance with Canadian generally accepted accounting principles. They include the accounts of the Commission and its wholly-owned subsidiaries, Ontario Northland International Consulting Services Inc, O.N.Tel Inc., Air-Dale Limited and Nipissing Central Railway Company.

**Inventory**

With the exception of used rail, all materials and supplies are valued at average cost. Used rail is shown at unamortized book value determined at the time of retirement.

**Self-Insurance Fund**

The self-insurance fund assets are stated at acquisition cost.

**Investment in Property, Plant and Equipment and Amortization**

Property, plant and equipment 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:

| | |
|---|---|
| Roadway - main line and branches | 20 to 50 years |
| Railway diesel locomotives | 25 years |
| Railway cars | 33 years |
| Buildings | 50 years |
| Telecommunications equipment | 15 to 25 years |
| Vehicles | 3 years |
| Computer equipment | 5 years |
| Coaches | 12 years |

The Province of Ontario reimburses the Commission for the cost of certain property, plant and equipment purchased for use in operations designated as non-commercial by the Province. The Commission records these assets at their original cost together with an offsetting credit to Net Investment in Property, Plant and Equipment (Province of Ontario). Annual amortization on these property, plant and equipment is recorded as a reduction of the Net Investment in Property, Plant and Equipment (see page 5).

**March 31, 2007**

**Employee Future Benefits**

**Pension Plans**

The Commission maintains a defined benefit pension plan for its employees. It provides for pensions based on years of service and average pensionable earnings and is generally applicable from the first day of the month following employment. The plan is not indexed; however, there have been a variety of ad hoc increases made to pensioners.

The obligations under the plan are determined using the accrued benefit method reflecting projected benefits for services rendered to date. Pension fund assets are valued using current market values. The Accrued Pension Benefit Asset or Obligation and expenses are determined annually by independent actuaries in accordance with accepted actuarial practice using management's best estimates. The date of the last actuarial valuation for funding purposes was January 1, 2006. The date of the next actuarial valuation for funding purposes is expected to be January 1, 2009.

**Non-Pension Benefit Plans**

The Commission offers non-pension post retirement benefits such as group life, health care and long-term disability to employees through defined benefit plans. The costs associated with these future benefits are actuarially determined using the projected benefits method prorated on service and best estimate assumptions. In addition, as a Schedule 2 employer under the Workplace Safety and Insurance Board (WSIB), the Commission recognizes workers compensation benefits on an accrual basis using actuarial calculations provided by the WSIB for benefits in force, benefits not yet awarded and administrative loading costs.

Both Pension and Non-Pension expenses consist of current service costs, interest and adjustments arising from plan amendments, changes in assumptions and experience gains or losses. Experience gains or losses are amortized on a straight-line basis over the expected average remaining service life of the employees covered by the plans. These expenses are recorded in the year in which employees render services to the Commission (See Note 4).

**Development Costs**

The Commission incurred certain costs related to its development of a new line of business (Refurbishment). The development costs are expensed, beginning in fiscal 2006-2007. Development costs that meet generally accepted criteria, including reasonable assurance regarding future benefits, are deferred and amortized on a straight line, completed-unit basis over a period not exceeding five years.

**Revenue Recognition**

Transportation revenues are generally recognized on completion of movements, with interline movements being treated as complete when the shipment is turned over to the connecting carrier. Contract revenues are generally recorded on a percentage of completion basis. Revenues from other sources including Government reimbursement are recognized when earned. Telecommunications toll revenue adjustments are recognized when measurement can be reasonably estimated (see Note 8).

**Income Taxes**

As an Operational Enterprise of the Province of Ontario, the Commission is exempt from income taxes. This exemption extends to its wholly-owned subsidiaries, and accordingly no tax provision is recorded in these financial statements.

**Foreign Currency Translation**

Revenues and expenses arising from foreign currency transactions are translated to their Canadian equivalent at the rates of exchange in effect at the transaction date. Resulting gains or losses on settlement or translation are included in the determination of net income for the current period. Included in Rail revenue is a foreign currency gain of $470,000 (2005-2006 - $697,000) arising mainly from Rail traffic settlements between Canada and the U.S.A.

**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.

**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.

**March 31, 2007**

## 1. Development Costs

| | **2007** | 2006 |
|---|---|---|
| **Development costs** - beginning of year | **$ 6,095,000** | $ - |
| Additions | **-** | 6,095,000 |
| Amortization | **446,000** | - |
| **Development costs** - end of year | **$ 5,649,000** | $ 6,095,000 |

## 2. Self-Insurance Fund

The Commission follows the policy of self-insuring for damages from rolling stock derailments and for cargo damage. Annual contributions to the self-insurance fund consist of a $100,000 premium paid by the Commission in addition to investment income earned on fund assets. Fund assets include cash in the amount of $2,066,000 (2006 - $ 6,120,000) plus $ 4,228,000 receivable from the Commission (2006 - $ 116,000 payable to the Commission).

Periodically, the Commission borrows cash from the fund for its temporary use. The Commission pays interest to the Fund at the bank's prime rate less 1.75% on these temporary borrowings.

## 3. Operating Line of Credit

The Commission currently holds an operating line of credit with the Ontario Financing Authority (OFA) in the amount of $8,000,000, of which $8,000,000 was being utilized as at March 31, 2007 (2006 - $8,000,000). In addition, the Commission has a revolving operating line of credit with the OFA in the amount of $7,000,000, of which $7,000,000 was being utilized as at March 31, 2007 (2006 - $7,000,000). Both of these operating lines bear interest at the Province of Ontario's cost of borrowing plus 25 basis points based on the date of each advance.

The Commission also holds a demand operating line of credit with the Canadian Imperial Bank of Commerce in the amount of $1,500,000 which is available for letters of guarantee and is secured by the Commission's accounts receivable. As of March 31, 2007, two letters of guarantee totaling $1,428,000 (2006 - $ 1,428,000) have been issued with an annual renewal commission of .375%.

## 4. Employee Future Benefits

The Commission is the administrator of its contributory pension plan which covers all permanent staff. The pension fund assets primarily include marketable securities, real estate and corporate and government bonds, which are invested by professional investment managers. The ONTC pension plan has an annual measurement date of December 31st.

The pension fund's target percentage allocation and average asset allocations as at March 31, 2007 and March 31, 2006, by asset category are as follows:

| | Target | **2007** | 2006 |
|---|---|---|---|
| Equity securities – Domestic | 20% - 30% | **25%** | 33% |
| – Foreign | 8% - 30% | **22%** | 13% |
| Debt securities | 35% - 55% | **49%** | 51% |
| Real estate | 0% - 15% | **3%** | 2% |
| Short term and other | 0% - 15% | **1%** | 1% |
| Total | | **100%** | 100% |

### a. Accrued Pension Benefit Asset

| | **2007** | 2006 |
|---|---|---|
| Projected benefit obligations | **$ 495,452,000** | $ 489,751,000 |
| Market value of plan assets | **510,034,000** | 485,045,000 |
| **Surplus (deficit)** | **$ 14,582,000** | $ (4,706,000) |
| **Accrued benefit asset** - beginning of year | **$ 77,278,000** | $ 80,076,000 |
| Expense | **(3,115,000)** | (2,979,000) |
| Funding contributions | **180,000** | 181,000 |
| **Accrued benefit asset** - end of year | **$ 74,343,000** | $ 77,278,000 |

**March 31, 2007**

**4. Employee Future Benefits (continued)**

**b. Accrued Non-Pension Benefit Obligation**

| | **2007** | 2006 |
|---|---|---|
| **Accrued benefit liability** - beginning of year | **$ 56,369,000** | $ 55,261,000 |
| Expense – Non-WSIB | **3,464,000** | 2,926,000 |
| Expense – WSIB | **75,000** | 137,000 |
| Funding contributions – Non-WSIB | **(1,939,000)** | (1,955,000) |
| **Accrued benefit liability** - end of year | **$ 57,969,000** | $ 56,369,000 |

Included in the accrued non-pension benefit liability is worker's compensation benefits in the amount of $11,306,000 (2006 - $11,231,000). This amount has been determined from the most recent available actuarial calculations provided by the Workplace Safety and Insurance Board as at December 31, 2006.

**c. Components of Net Periodic Pension Benefit Expense**

| | **year ended March 31, 2007** | 15-month ended March 31, 2006 |
|---|---|---|
| Current service cost less employee contributions | **$ 9,470,000** | $ 6,721,000 |
| Interest cost on accrued benefit obligation | **25,630,000** | 25,045,000 |
| Expected return on plan assets | **(35,295,000)** | (30,881,000) |
| Amortization of initial obligation | **197,000** | 197,000 |
| Amortization of past service costs | **1,195,000** | 1,153,000 |
| Amortization of net actuarial gain | **1,918,000** | 744,000 |
| | **$ 3,115,000** | $ 2,979,000 |

**d. Components of Net Periodic Non-Pension Benefit Expense**

| | **year ended March 31, 2007** | 15-month ended March 31, 2006 |
|---|---|---|
| Current service cost | **$ 1,001,000** | $ 793,000 |
| Interest on accrued benefit obligation | **2,538,000** | 2,283,000 |
| Amortization of net actuarial gain | **-** | (13,000) |
| | **$ 3,539,000** | $ 3,063,000 |

**e. Weighted Average Assumptions**

| | | |
|---|---|---|
| Discount rate - pension | **5.25** | 5.75 |
| Discount rate - non pension | **5.25** | 5.75 |
| Expected long-term rate of return on plan assets | **7.50** | 7.50 |
| Rate of compensation increase | **4.00** | 4.00 |
| Medical cost increases | **4.5% to 10.0%** | 4.5% to 10.0% |

## 5. Long-term Debt and Capital Lease Obligations

| | 2007 | 2006 |
|---|---|---|
| **a.** Loan from Ontario Financing Authority, bearing interest at 5.22% per annum, blended monthly payments of $30,000 for 15 years beginning February 1, 2005 | **$ 3,415,000** | 3,598,000 |
| Loan from Ontario Financing Authority, bearing interest at 5.64% per annum, blended monthly payments of $43,000 for 10 years beginning May 1, 1998. | **541,000** | 1,012,000 |
| Loan from Ontario Financing Authority, bearing interest at 5.60% per annum, blended monthly payments of $156,000 for 15 years beginning January 1, 2000. | **11,754,000** | 12,937,000 |
| Loan from Ontario Financing Authority, bearing interest at 6.37% per annum, blended monthly payments of $109,000 for 15 years beginning September 1, 1999. | **7,748,000** | 8,543,000 |
| Loan from Ontario Financing Authority, bearing interest at 4.717% per annum, blended annual payments of $1,681,000 for 4 years beginning March 31, 2007. | **6,000,000** | 6,000,000 |
| Loan from Ontario Financing Authority, bearing interest at 4.90% per annum, blended monthly payments of $13,000 for 25 years beginning February 1, 2006. | **2,244,000** | 2,292,000 |
| Construction advance from the Bank of Montreal, bearing interest at the bank's prime rate less .75%. Further advances will be made up to $6,000,000 then converted to a fixed term loan, term not to exceed 10 years, bearing interest at bank cost of funds plus 25 basis points. Secured by assets of Ontera. | **250,000** | - |
| Vendor take back loan on an asset purchase that bears 0% interest, repayable over 8 years in accordance with the terms of the purchase agreement beginning December 1, 2000. | **326,000** | 466,000 |
| | **32,278,000** | 34,848,000 |
| **Less** current portion | **4,509,000** | 4,308,000 |
| | **$ 27,769,000** | $ 30,540,000 |

Payments required in the next five years and thereafter are as follows:

| | |
|---|---|
| 2007 - 2008 | $ 4,509,000 |
| 2008 - 2009 | 4,420,000 |
| 2009 - 2010 | 4,230,000 |
| 2010 - 2011 | 4,178,000 |
| 2011 - 2012 | 2,945,000 |
| Thereafter | 11,996,000 |
| | $ 32,278,000 |

**March 31, 2007**

## 5. Long-term Debt and Capital Lease Obligations (continued)

| | | 2007 | 2006 |
|---|---|---|---|
| **b.** | Capital lease bearing interest of 5.93% per annum, blended monthly payments of $7,000 for 4 years beginning January 24, 2006 | **$ 211,000** | 280,000 |
| | Capital lease bearing interest of 5% per annum, blended monthly payments of $10,000 for 3 years beginning March 1, 2006. | **219,000** | 334,000 |
| | Capital lease bearing interest of 10% per annum, blended monthly payments of $11,000 for 2 years beginning November 27, 2005. | **73,000** | 198,000 |
| | Capital lease bearing interest of 7% per annum, blended monthly payments of $1,000 for 5 years beginning September 22, 2006. | **65,000** | - |
| | Capital lease bearing interest of 5.5% per annum, blended monthly payments of $22,000 for 2 years beginning December 18, 2004. | **-** | 1,285,000 |
| | | **568,000** | 2,097,000 |
| | **Less** current portion | **276,000** | 1,574,000 |
| | | **$ 292,000** | 523,000 |

Payments under capital leases included above are as follows:

| | |
|---|---|
| 2007 - 2008 | $ 303,000 |
| 2008 - 2009 | 217,000 |
| 2009 - 2010 | 76,000 |
| 2010 - 2011 | 13,000 |
| 2011 - 2012 | 6,000 |
| Total minimum payments | 615,000 |
| Less: amount representing interest | 47,000 |
| Obligations under capital lease | $ 568,000 |

## 6. Deferred Revenue

Included in Deferred Revenue are the following two significant items:

In 2004, the Commission entered into a multi-year contract to refurbish commuter cars. Under the terms of the contract, the Commission received an advance from the customer of $4,030,000 in 2005-2006 in addition to the $2,627,000 received in 2004 to defray contract costs. An amount of $3,961,000 (2005-2006 - $5,723,000) has been included as deferred revenue, of which $1,866,000 relates to periods after March 31, 2008. The deferred revenue will be recognized based on the percentage of completion method. During 2006-2007, $1,762,000 (2005-2006 - $750,000) of the advance was recognized as revenue.

Hydro One has entered into a 20-year agreement for the use of the Commission's fibre optic cable, expiring in March 2022. The total contract value is $1,380,000. The remaining balance of $1,104,000 has been included as deferred revenue, of which $1,035,000 relates to periods after March 31, 2008. The deferred revenue will be recognized on a straight line basis over the life of the agreement. During 2006-2007 $69,000 (2005-2006 - $86,000) was included as revenue.

## 7. Government Reimbursement

In accordance with a Memorandum of Understanding between the Commission and the Ministry of Northern Development and Mines, certain operations of the Commission have been designated as non-commercial. The Commission and the Ministry have entered into annual contribution agreements which define the amount of compensation which the Province of Ontario would provide in each fiscal year. Starting in fiscal 2002 the provincial government began to fully reimburse losses on the passenger train services.

A portion of the operating loss of the weekday passenger train service between North Bay and Toronto is reimbursed by the National Transportation Agency of Canada under Section 270 of the Railway Act. The federal government revoked the Railway Act during 1996 and replaced it with the Canada Transportation Act. An annual reimbursement of $2,500,000 was received until the expiration of the agreement on March 31, 2007.

**March 31, 2007**

**7. Government Reimbursement (continued)**

Details of Government reimbursement are as follows:

| | year ended March 31, 2007 | 15-month ended March 31, 2006 |
|---|---|---|
| **From Province of Ontario:** | | |
| Rail - Passenger Service and Moosonee Branch | **$ 16,051,000** | $ 20,646,000 |
| Marine Services (Moosonee) | **49,000** | 229,000 |
| | **16,100,000** | 20,875,000 |
| **From Transport Canada:** | | |
| Current period's operations | **2,500,000** | 3,125,000 |
| | **$ 18,600,000** | 24,000,000 |

The Commission is dependent on these reimbursements to carry out its non-commercial operations.

**8. Telecommunications Revenue**

The Commission's Telecommunications Division has a traffic agreement with Bell Canada that permits the two companies to exchange and settle on the toll traffic that traverses their network. The Access Tariffs charged by the Local Exchange Carriers were finalized by the CRTC in March 2005 and were not subject to any retroactive adjustments. In keeping with the Commission's accounting policy, any revenue or cost adjustments whether positive or negative are to be recognized in the year in which they become known and estimable.

**9. Passenger Revenue**

In compliance with the Travel Industry Act, the 2006-2007 gross retail sales were $547,000 (2005-2006 - $226,000) and the 2006-2007 gross wholesale sales were $61,000 (2005-2006 - $58,000).

## 10. Contingencies

### a. Ontera Assets

O.N.Tel Inc. (operating as Ontera) has sustained losses from operations over the current and the past accounting period as well as losses on a cash flow basis over the past accounting period (see Schedule 2). In response to the situation, management has developed a business plan that will require a significant investment in Ontera's property, plant and equipment along with associated financing. The plan has been reviewed by an independent third party consultant and formally approved by the Commission. The Province has also approved the plan including the underlying capital investment component and negotiations are currently underway with various lenders to secure the necessary financing.

### b. Statement of Claim

Various statements of claim have been issued against the Commission claiming damages. Damages, if any, cannot be estimated at this time and in any event the Commission is of the opinion that these claims would be unfounded or covered by insurance after application of a $2,000,000 deductible. Should any loss result, it would be charged to operations when the amount is ascertained.

In 1998 a claim for $3,000,000 was submitted to the National Transportation Agency for partial reimbursement of the write-down of railway passenger rolling stock. The likelihood of the success of the claim remains not determinable at this time and as a result is not reflected in these financial statements.

### c. Derailment

On March 30, 2007 one of the Commission's freight trains derailed in a remote area of Northeastern Ontario. The train carried, in addition to other commodities, sulphuric acid. Costs to clean-up the derailment and the environment are not estimable as of the date of printing of these financial statements and will be accounted for in the coming fiscal period. As per past practice, these costs are expected to be covered by the Self-Insurance Fund (Note 2).

## 11. Commitments

The Commission has contractual obligations on a number of operating leases for such items as rail cars, computer equipment, automotive equipment and other. It is management's opinion that in aggregate the annual cost of these leases is not significant to the Commission as a whole.

The Commission is also obligated to certain job guarantee agreements with a significant number of its unionized employees.

**March 31, 2007**

**12. Financial Instruments**

The Commission's financial instruments consist of cash and cash equivalents, accounts receivable, bank indebtedness, operating line of credit, accounts payable and accrued liabilities, long-term debt and, capital lease obligations. Unless otherwise noted, it is management's opinion that the Commission is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximated their carrying values, unless otherwise noted.

**13. Contribution by the Province of Ontario**

In March 2005, the Ontario Financing Authority released the Commission from its obligation to repay $20,277,000 of the operating line of credit. This amount was reclassified to Investment by the Province of Ontario.

**14. Related Party Transactions**

During the period, the Commission charged the ONTC Contributory Pension Fund $177,000 (2005-2006 - $160,000) for financial and administrative support.

**15. Economic Dependence**

During 2006-2007, the Rail Services Division derived 35% (2005-2006 - 38%) of its revenue from three major customers.

**16. Comparative Figures**

Prior year's figures have been reclassified where necessary to conform to the current year's presentation.

Pursuant to an amendment made to the Ontario Northland Transportation Commission Act in 2006, the Commission changed its year end to March 31st from December 31st. As a result, the comparative amounts in this presentation cover a fifteen month period ended March 31, 2006.


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