Ontario Northland Transportation Commission

2007 – 2008 Annual Report

Ontario Northland

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The Ontario Northland Transportation Commission (Ontario Northland; ONTC), 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 telecommunication links in northern Ontario.

Our Services

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

- the Northlander (passenger train service between Cochrane and Toronto);
- the Polar Bear Express (passenger train service between Cochrane and Moosonee, with tourist excursion packages offered during the summer months);
- rail freight services between Cochrane and Moosonee; and
- the Moosonee barge (freight transportation between Moosonee and the island of Moose Factory).

Commercial services include:

- Ontera telecommunications services;
- Rail freight services;
- Refurbishment services;
- Scheduled and charter motor coach services and Bus Parcel Express; and
- the Dream Catcher Express (fall excursion train traveling between North Bay and Temagami).

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

Ontario Northland at a Glance

Ontario Northland provides **transportation and telecommunications** services and solutions to the residents and businesses of northern Ontario

$140 million in revenues (2007-2008)

Our **1,000+ employees** live and work in northern Ontario

We contribute to the **economic and social prosperity** of more than **50** northern and central Ontario communities

We play an **important role** in a region that has a declining population base and a declining forestry-based economy

Our Vision

Connected communities; a prosperous North.

We have chosen the vision statement: "Connected communities; a prosperous North" as it summarizes what Ontario Northland does and the reason for our existence. We connect the communities we serve in many ways and, through these efforts, we empower the people of the North to improve the quality of their lives and increase the prosperity of the region. The role we play is as important now, and into the foreseeable future, as it has ever been.

Our Mission

We will achieve our vision of connected communities and a prosperous North by partnering with the Province, communities, and business to deliver a high standard of safe, reliable, and environmentally-responsible transportation and telecommunications services. With our dedicated and skilled workforce, we will deliver on our mandate and provincial commitment to create value through economic development, financial return, and superior service.

Our Values

• Customer Focus • Positive Team/Work Environment •
• Safety • Continuous Learning (Innovation) •

By choosing to live these values, Ontario Northland employees share accountability for helping to connect communities and build a prosperous North.

Connected communities; a prosperous North.

This year, we completed a new strategic plan for Ontario Northland and chose these five words as our vision statement. Five words that say so much about what we do, why we are so important to our region, and the role we must play in the future. We connect the widely dispersed people of the North to each other and to the world through our telecommunications and transportation services. We connect many of the major employers of the North to their customers and suppliers.

Prosperity and development have followed the introduction and enhancement of our services for over a hundred years. Only by being efficient and effective in the delivery of our services, can we help the North to compete. Looking ahead, we see an even greater and more important role for Ontario Northland. As society continues to focus on the environment and greenhouse gas emissions, an expanded and more proactive role (beyond our traditional territory and perhaps our traditional service offerings) for rail and motor coach modes of transportation, and indeed the telecommunication services provided by Ontera, will be crucial to the success of the North. The fact that the population and the economy is actually shrinking in much of the North makes our role even more important. Prosperity in the North means prosperity for Ontario Northland and indeed, the entire Province.

In 2007-2008, 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. We have made significant progress towards achieving profitability in both our Refurbishment Division and Ontera, our telecommunications division. In addition, we introduced considerable enhancements to our passenger rail service between Cochrane and Moosonee, by increasing the frequency of passenger trains and by separating passenger and freight services.

At the same time, we encountered several new challenges. The current crisis being faced by the forestry industry has had a significant negative impact on our rail freight revenues, as has the rising cost of fuel. As well, we experienced a ten week work stoppage within our Motor Coach Department in the fall, which negatively impacted our customers and the department’s bottom line and are currently working to rebuild ridership and relationships.

Ontario Northland incurred a loss of $15.6 million for the year ended March 31, 2008. We continue to work towards achieving positive financial results as we progress through multi-year business and strategic plans directed towards future financial viability.

In looking forward, our focus rests entirely on “connected communities; a prosperous north”. 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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Ontario Northland is an operational enterprise of the Government of Ontario. An operational enterprise is characterized as a government agency that "sells goods or services to the public in a commercial manner (including, but not necessarily, in competition with the private sector)."

Ontario Northland operates under the Ontario Northland Transportation Commission Act and the Minister of Northern Development and Mines is responsible for administration of the Act. The Act was established in 1902 and was most recently revised in 2006.

Ontario Northland is also governed by a Memorandum of Understanding (MOU) that was most recently updated in 2007. The purpose of this MOU is to set the accountability relationship between the Ontario Northland Transportation Commission and the Ministry of Northern Development and Mines (MNDM). Specifically, the responsibilities of the Minister, Deputy Minister, Chair of the Ontario Northland Transportation Commission, the Board, and the CEO are outlined within the MOU.

Our Mandate

Our mandate is to provide efficient transportation and telecommunications services in northern Ontario as directed by the Government of Ontario, through the Minister of Northern Development and Mines:

a) To support and promote, through the services delivered by Ontario Northland, northeastern Ontario economic development, job creation and community sustainability;

b) Through its services, to support, promote and enhance linkages and clustering between communities within the region and between northeastern Ontario and other regions;

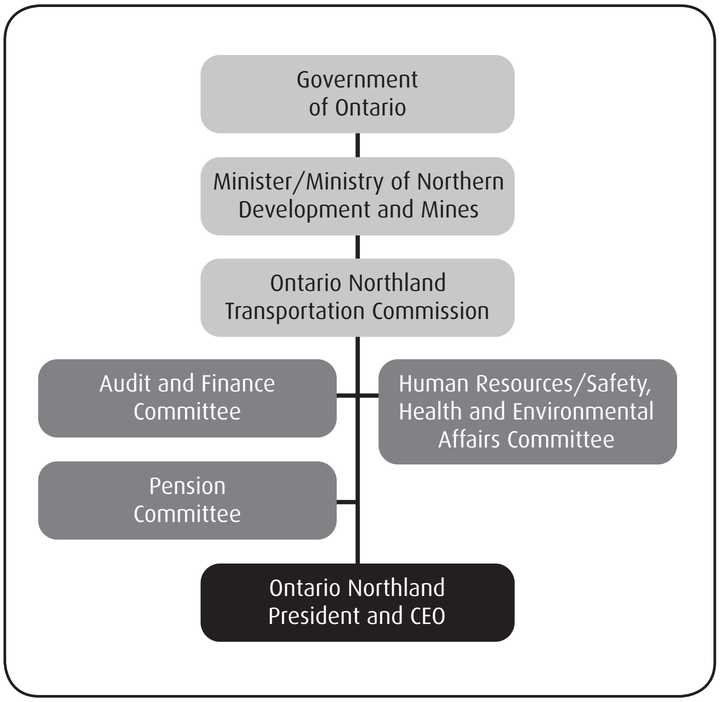
c) To deliver price-competitive transportation and telecommunications services that are safe, reliable and responsive to customers, residents and businesses in northeastern Ontario; and

d) To deliver services in a financially efficient and effective manner with an objective of improved cost recovery and self-sustainability.

Reporting Structure

The President and CEO of the Company reports to the Ontario Northland Transportation Commission, comprised of a Chair and Commission 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

(April 27, 2004 to April 26, 2007; April 21, 2007 to April 20, 2009)

Mr. Hargreaves is the Ontario Lakeland Regional Managing Partner with BDO Dunwoody LLP. In addition, he is Finance Chair for the Pro Cathedral Parish as well as Founding Treasurer for the North Bay Soup Kitchen. He is also a Member of the Campaign Cabinet and Co-Chair of the Special Request Hospital Fundraising Committee for the North Bay General Hospital. Mr. Hargreaves has also served on many other professional and community boards and committees and recently completed his term as a member of the Canadore College Board of Governors. Mr. Hargreaves is Chair of the Commission and is also an active member of the Audit and Finance Committee.

Commissioners

Dan Belisle, Cochrane

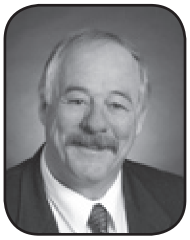
(July 5, 2004 to July 4, 2007)

Mr. Belisle is the Vice President and General Manager of Belisle Trac Sales Ltd. in Cochrane. He manages the family owned operation and day-to-day activities of a Chrysler and Arctic Cat dealership. He is presently the Chairman of the Cochrane Railway and Pioneer Museum in Cochrane. He has served as Commissioner and Chairman on the Cochrane Public Utilities Commission, President of the Cochrane Minor Hockey Association and Executive member of the Cochrane Board of Trade. Mr. Belisle was an active member of the Commission's Audit and Finance Committee and Pension Committee.

René Fontaine, Hearst

(August 25, 2004 to August 24, 2007)

Mr. Fontaine is presently a Consultant for Tembec Inc. He has served as MPP for Cochrane North as well as Mayor and Counsellor for the Town of Hearst. He has been President and Founding Member for several organizations. He spent many years as a Co-owner of a softwood lumber mill. Mr. Fontaine was an active member of the Commission's Human Resources/Safety, Health and Environmental Affairs Committee.



Carson Fougère, North Bay

(July 5, 2004 to July 4, 2007; July 5, 2007 to July 4, 2010)

Mr. Fougère is the retired Chief Superintendent - Regional Commander for the Ontario Provincial Police - Northeast Region Headquarters in North Bay. He is involved with the Air Cadet League of Canada as Director - Ontario Provincial Committee, and is a Director of the Northern Ontario Gliding Centre in North Bay. He is Chair of the Board of Directors of the Northeastern Ontario D.A.R.E. (Drug Alcohol Resistance Education) and also teaches part-time as an Adjunct Professor in the Honours Criminal Justice Program at Nipissing University. Mr. Fougère is currently Chair of the Commission's Pension Committee.

Mathilde Gravelle Bazinet, North Bay

(July 5, 2004 to July 4, 2007; July 5, 2007 to July 4, 2010)

Mathilde Gravelle Bazinet, a member of the Law Society of Ontario, entered the law profession after a successful 20-year career in the field of Nursing Education and Health Care Administration at the community college and university level within the Provincial and Federal Public Sector. Ms. Bazinet has served on numerous professional committees, boards, and commissions and, in June 2005, she was appointed the Founding Chair of the North East Local Health Integration Network for the Ministry of Health and Long-Term Care. Ms. Bazinet is the author of several publications in the field of conflict resolution, health care administration, and emergency services. Ms. Bazinet is an active member of the Commission's Human Resources/Safety, Health and Environmental Affairs Committee and Pension Committee.

Margaret Hague, Spring Bay

(July 5, 2004 to July 4, 2007; July 5, 2007 to July 4, 2010)

Ms. Hague has taught in schools in Ontario, Germany and British Columbia. She was General Manager of LAMBAC, a Community Futures Development Corporation. She has been a founding member of several organizations throughout Ontario including the Northeast Development Network, Manitoulin Trade Fair Association and numerous committees throughout the LaCloche Manitoulin area. In addition, Ms. Hague is a councillor for the Town of Gore Bay and Chair of Gore Bay Non-Profit Housing. She currently serves as Chair of the Commission's Human Resources/Safety, Health and Environmental Affairs Committee.

Randy Kapashesit,
Moose Factory

(November 3, 2004 to November 2, 2007; November 3, 2007 to November 2, 2008)

Mr. Kapashesit has been Chief of the MoCreebec Council of the Cree Nation since 1987. Mr. Kapashesit has held positions as Coordinator of the Cree Village Ecolodge, Program Coordinator of the Queen's University Weeneebayko Program, and Consultant of the Traditional Medicine Study at the Weeneebayko General Hospital. His community involvement includes serving as President of the Weeneebayko Eeyou Association (Charitable Organization) and acting as Board Chair of the Cree Village Ecolodge. In addition, he sits on the Board of the North East Local Health Integration Network (NE LHIN) for the Ministry of Health and Long-Term Care. Mr. Kapashesit is an active member of the Commission's Human Resources/Safety, Health and Environmental Affairs Committee.

David Plourde, Kapuskasing

(July 5, 2004 to July 4, 2007; July 5, 2007 to July 4, 2010)

Mr. Plourde is a self-employed owner/operator of an upholstery, furniture repair and marine fabricating business. He has served on the Kapuskasing Council for the last fourteen years and currently holds the position of Chair of the Recreation and Culture Standing Committee and is a member of the Public Works Standing Committee. He is also Chair of the Kapuskasing Citizens Recreation Committee, Beautification Committee, Cochrane District Social Services Administration Board Housing Authority, Kapuskasing-Moonbeam Landfill Site Management Board, Kapuskasing Public Library Board, Library and Public Works Construction Committees. Mr. Plourde is President of the Agrium AAA Flyers midget hockey club and Vice Chair of the Northern Corridor Children's Foundation. In addition, he has served as president and founding member for several other organizations. Mr. Plourde is currently an active member of the Commission's Audit and Finance Committee.

Donavon Porter, Haileybury

(July 5, 2004 to July 4, 2007; July 5, 2007 to July 4, 2010)

Mr. Porter is a retired Principal from the District School Board Ontario North East. Prior to retirement, he was Principal of Cobalt Public School. He has previously served as Principal at Temagami Public School, Vice-Principal at New Liskeard Public School and taught a variety of grades and special assignments at schools in the southern region of the Board. He is a member of the Ontario Principals' Council and has served on its local executive, is a member of the Ontario College of teachers and has been a member of the Ontario Public School Teachers' Federation and Elementary Teachers' Federation of Ontario. He is an avid outdoor enthusiast and fisherman who volunteers at the local museum and by helping seniors solve computer software problems and teaching new computer applications. Mr. Porter is an active member of the Commission's Human Resources/Safety, Health and Environmental Affairs Committee and Pension Committee.

Lad Shaba, Kirkland Lake

(July 5, 2004 to July 4, 2007; July 5, 2007 to July 4, 2010)

Mr. Shaba is a professor of Civil Engineering Technology at Northern College in Timmins. He is also the coordinator of Civil Construction Management and Building Inspection programs at the College. Mr. Shaba served for six years as a faculty representative on the Northern College Board of Governors and is currently the President of the faculty union. He has also served as a board member and the Chair of the Temiskaming Housing Authority. He was a member of the Provincial Committee (Ministry of Training, Colleges and Universities) on Standards and Accreditation for Civil Engineering Technology and Construction Engineering, Survey Technology and Technician programs. He is a co-founder of the Kirkland Lake Minor Soccer Club and was the President of Soccer North District. He is a professional engineer licensed in the Province of Ontario with a specialty in geotechnical and structural designs. He is the owner/CEO of Shaba Engineering & Materials Testing Services in Kirkland Lake, Ontario. Mr. Shaba is currently serving as Chair of the Commission's Audit and Finance Committee.

Commission Committees

The Commission has three standing committees:

- **Audit and Finance Committee**

  The Audit and Finance Committee is responsible for ensuring that appropriate controls and accountabilities exist within the Commission with respect to audit, finance and areas of material risk.

  Chair: Lad Shaba

  Members: Dan Belisle, Ted Hargreaves, David Plourde

- **Human Resources / Safety, Health and Environmental Affairs Committee**

  The Human Resources/Safety, Health and Environmental Affairs Committee is responsible for providing policy assistance and making recommendations, on behalf of the Commission, on matters relating to human resources, safety, health and environmental affairs.

  Chair: Margaret Hague

  Members: Mathilde Bazinet, René Fontaine, Randy Kapashesit, Donavon Porter

- **Pension Committee**

  The Pension Committee has the authority to govern, manage and operate, on behalf of the Commission, the Contributory Pension Plan of the Ontario Northland Transportation Commission and any associated assets.

  Chair: Carson Fougère

  Members: Mathilde Bazinet, Dan Belisle, Donavon Porter

Principal Officers

Steve Carmichael – President and CEO

Grant Bailey – Vice President of Rail (to July 16, 2007)

Kevin Donnelly – Vice President of Finance and Administration

Randy Evers - Vice President of Rail (appointed September 5, 2007)

Paul Goulet – Vice President and General Manager of Ontera

Cheryl Sutton – Vice President of Passenger Services

Russ Thompson – Counsel


PRODUCT OF CANADA

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

Corporate Realty	Information Technology	Property Management
Finance	Legal	Public Relations
Health and Safety	Marketing	Purchasing
Human Resources	Planning	Risk Management

Accomplishments

- **Risk Management**

  The ability to manage risk is one of the core competencies of any organization and its employees. Risk management methods and tools assist an organization in planning, performance reporting, and implementing concrete actions and programs to maximize their opportunities and to control their threats. In October 2007, a Risk Management Office was created to coordinate the development and full implementation of a risk management program throughout Ontario Northland, which will examine operational effectiveness and highlight major risks, areas for improvement, performance measures, and guidelines for prioritizing risks and formulating action plans.

- **Corporate Planning**

  Over the last year, the Commission created a five year strategic plan for the organization, in addition to a new business plan template which will be implemented for 2010. The Commission also focused its efforts on developing assessment tools to formally evaluate its effectiveness and on creating terms of reference and annual work plans for each of its three sub committees: Audit and Finance; Pension; and Human Resources/Safety, Health and Environmental Affairs. As well, the Commission developed performance measures for each division.

- **Health and Safety**

  We continued to proactively promote health and safety in the workplace this year and focused heavily on education and training as key components of our program. In addition, our workplace health and safety committees, which play an integral role in our program, received updates on changes to our safety management system and focused their efforts on risk assessment and hazard identification and prevention. Our injury statistics show an increase in strains and pulls while the reduction in lost time is indicative of the success of our early return to work initiative.

- **Internal Communication and Employee Engagement Survey**

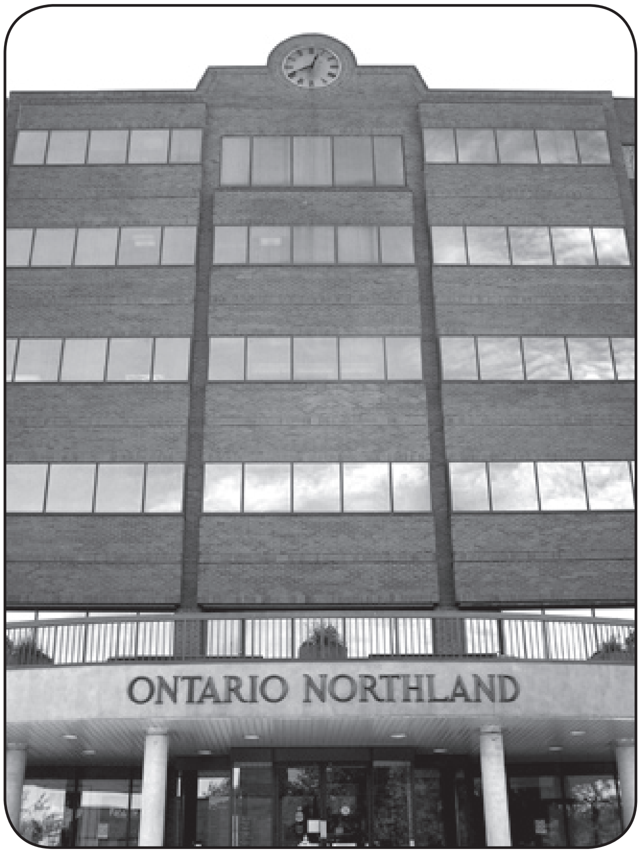
  In the summer of 2007, we conducted our first, company-wide internal communication and employee engagement survey in order to learn more about how Ontario Northland employees feel about their Company, their jobs and to gain feedback on corporate communications. 40% of employees responded and provided both positive feedback and areas for improvement. Good communication and positive employee morale are vital to the smooth operation and success of our Company and thus, the feedback we received is invaluable in directing our efforts to improve. One of the key outcomes of this survey has been the introduction of a regular "President's Update" to provide employees with more information relating to our Company and its current operational and financial results.

- **Corporate Marketing and Communications Department**

  In the summer of 2007, all marketing and communication functions, for all divisions, were centralized in order to achieve efficiencies, realize economies of scale and establish consistency in our messaging and branding.

- **Energy Conservation**

  An inter-divisional committee was formed in November of 2007, to examine energy conservation opportunities throughout all areas of Ontario Northland. The committee released an internal report in March 2008 that focused on the need to create a culture of conservation and provided appropriate recommendations.



Challenges

- **Cost-Saving Measures**

  As the result of the downturn in the forestry industry, many of the mills we serve in northeastern Ontario have temporarily ceased operation or, have reduced their production. Our rail freight revenues were significantly affected by this crisis and fell short of budget, causing us to implement cost-saving measures throughout the organization.

- **Increased Efficiencies**

  We continued 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.

- **Communications**

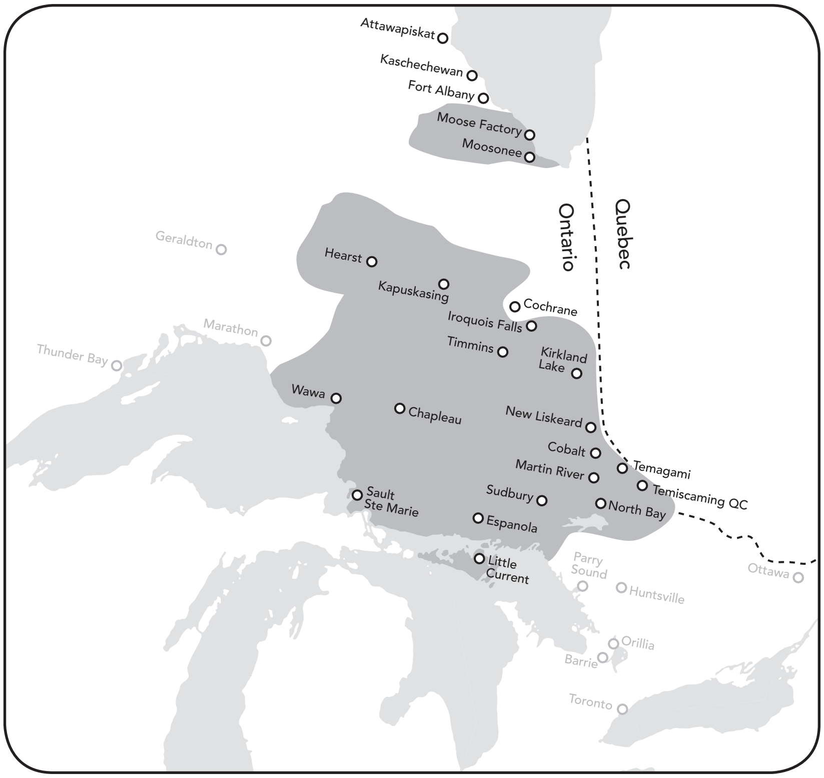
  Ontario Northland boasts more than 1,000 employees who live and work in communities throughout northern Ontario. Our employees are, by far, our greatest asset. It does remain a challenge however, to achieve effective communication given the diversity in employee roles and responsibilities, as well as the sheer vastness of our Company’s geography. Our internal communication and employee engagement survey has provided us with feedback and insight, which will assist us in improving our communication efforts.

Ontera (Telecommunications Services)

Ontera, a fully integrated telecommunications company, offers a wide range of telecommunications and IP-based (Internet Protocol-based) solutions including Internet, long distance, voice, data and information technology services in northern Ontario.

Over the last several years, we have refocused our efforts on engineering in order to provide a solid telecommunications infrastructure for the benefit of residents, businesses, public sector and carrier customers in the north.

Accomplishments



- **30,000 Northern Ontario Telecommunications Customers**

  We provide northern-based telecommunications services and solutions to more than 30,000 residential, business, public sector and carrier customers in communities primarily in northeastern Ontario.

- **Investing in Infrastructure**

  Over the last year, we have focused significantly on investing in our infrastructure. In November 2007, we secured $17 million in financing, which allowed us to move forward with enhancements to our infrastructure as we work to become the carrier's choice for access throughout northeastern Ontario and to achieve a greater balance of carrier and wholesale revenue. Network-to-network interfaces in our core service markets will be strengthened by network expansion in our traditional territory, along with completion of connectivity to the Canadian carrier hub in Toronto.

- **Public Sector Solutions**

  Ontera is the service provider of choice for eight municipalities, eight regional school boards and six post-secondary institutions. In addition, we have successfully completed the implementation of 140 core telecommunications sites in northeastern Ontario for Telus, as part of its partnership with the Government of Ontario for the Ontario Public Service Network Access Service (OPS NAS) project. Ontera's core network is being further enhanced to provide full carrier class capabilities for this important wide area network (WAN) project. These state-of-the-art enhancements will benefit future projects and all of northern Ontario as Ontera increasingly becomes the digital gateway to the north.

- **Health Care**

  Smart Systems for Health Agency (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 currently provides connectivity to over 45 sites in northeastern Ontario. Site development is nearing completion for Parry Sound and various communities along Highway 17 West. Phase two of the project will encompass the planned deployment of wireless infrastructure throughout remote locations to serve the needs of SSHA.

- **Broadband Access**

  Ontera was one of the first Internet service providers in northeastern Ontario and our legacy continues with the expansion of fixed wireless service and DSL (Digital Subscriber Line) in conjunction with our community-based network partners NEOnet and Blue Sky Economic Growth Corporation. Ontera will offer both retail and wholesale access to the expanded network footprint enabling a choice of service providers for all customers. Ontera is capable of providing services to residential and small business with a technology agnostic approach that best meets their individual requirements.

- **Voice Services**

  We have implemented a softswitch telecommunications technology system that will enable us to offer local telephone services to residential, business and other carrier markets in a traditional fashion or over an IP-based services platform. This investment will also allow us to offer customers advanced voice services with improved quality and efficiency, at a lower cost.

- **Keewaytinool Olimakanak (K-Net Services)**

  K-Net Services and Ontera have worked to expand network services into many First Nation communities and health centres. Our partnership continues to grow as new sites are added on a quarterly basis for Telehealth and Internet access.

- **Internal Structure and Processes**

  Over the last two years, we have been working to strengthen our internal structure and processes. Most recently, we have focused on ensuring that the right people, with the right skills, are in the right positions and, to this extent, have reorganized to capitalize on the strengths of Ontera's team members. In addition, we have created an area of significant strength with the introduction of our Project Management Office (PMO), which is now fully operational and oversees a current load of more than 50 projects and major orders. Following the methodologies prescribed in the Project Management Body of Knowledge (PMBoK), Ontera's PMO involvement spans from planning through to the closing of projects and orders in order to ensure the best possible use of resources within the constraints of cost, scope, time and quality.

Challenges

- **Ageing Infrastructure**

  The telecommunications industry is quickly evolving and new technologies are emerging everyday. Much of Ontera's infrastructure is ageing and is no longer cutting edge. In order to best meet the needs of our northern customers and the northern-based requirements of our growing carrier business, it is essential that we invest in both equipment and technology. We have secured financing of $17 million which will allow us to invest significantly in our infrastructure as we work to address this concern.

- **Telecommunications Network Service Interruption**

  In July 2007, we experienced a service interruption in our telecommunications network.

  Communities north of Marten River, and between the Ontario-Quebec border and Hearst, were affected by this service interruption, which involved both local and long distance telephone service, some cellular telephone service and Internet/data service. The interruption was caused by a cut in our fibre optic cable network, which was found to have occurred as a result of criminal activity. While service was restored in the same day, this outage nonetheless highlighted the need for a diversified, or redundant, network in northern Ontario.

- **Diversity**

  There exists a need to protect essential telecommunications services in northern Ontario with a diverse network topology. This diversity refers to the creation of a self healing network or "ring" to ensure the reliable and continuous flow of voice and data traffic during unforeseen equipment or network outages. Implementation of such a "ring" topology network would eliminate the single points of failure which exist today in key locations in northeastern Ontario within a lineal network configuration. The end result will provide northern institutions, businesses and residential customers with a secure and hardened network infrastructure that will safeguard essential telecommunications services for all customers and carriers within Ontera's "ring" coverage area.

- **Achieving Profitability**

  To ensure our long-term success and viability, it is essential that we regain profitability. In recent months, we have recorded positive financial gains measured on an EBIDA basis as major project activity is matched by ongoing, responsive cost containment measures and internal transformation activities focused on achieving a greater balance of carrier and wholesale revenues. Ontera will continue under sustained, increasing pressure to expedite implementation of its various business transformation activities to ensure timely, substantial returns on capital investments it makes during the next three years and will need to sharpen its focus on cost reduction as much as it focuses on new revenue opportunities aligned with carrier and wholesale business rebalancing.

- **Technology Substitution**

  Ontera is confronted with increasing cross-platform competition as customers replace traditional services with new technologies. These new alternatives to legacy services also result in lower revenues and seriously impact the economies of scale of the products they displace. Examples of this market trend are instant messaging replacing long distance calls and Ethernet access and DSL-based services replacing private line and frame relay services.

- **Economic Conditions**

  A sustained downturn in the economy could prompt residential and business customers to defer new services, reduce use, discontinue or seek lower priced alternatives. Combined with the systemic risk associated with the single industry and resource-based business environments, Ontera may face reduced market and demand for our products and services.

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.

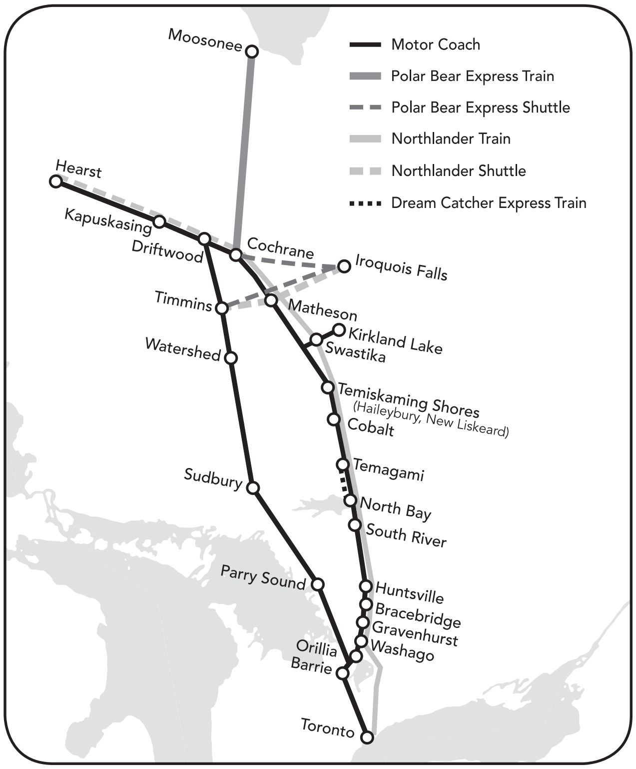
The transportation solutions we offer are becoming increasingly valuable in the north, given the rising cost of fuel and growing environmental concerns.

In 2007-2008, more than 320,000 passengers traveled aboard either one of Ontario Northland's 25 highway motor coaches or on one of our three passenger trains.

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 motor coach 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 three passenger trains:

- The Northlander is a passenger train which offers service between Cochrane and Toronto, with connections to Hearst, Iroquois Falls and Timmins. The train operates six days per week (Sunday to Friday) and receives funding from both the provincial and federal governments.
- The Polar Bear Express is a passenger train which offers service between Cochrane and Moosonee, with connections to Iroquois Falls, South Porcupine and Timmins. The train operates five days a week (Monday to Friday) in the fall, winter and spring, and six days a week (Sunday to Friday) during the summer, when tourist excursion packages are also available. The Polar Bear Express is funded by the provincial government.
- The Dream Catcher Express is an excursion train traveling between North Bay and Temagami, which operates six days each fall.

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

Accomplishments

- **Increase in Ridership on Passenger Trains**

  Ridership on our Northlander train increased by 28.0%, in large part as a result of passengers using our train service during the ten week motor coach operators strike. Prior to the strike, ridership had increased by 7.4%, for the first six months of the fiscal year. Traffic on our Polar Bear Express train increased by 6.1%, primarily as a result of improved services, which were introduced in June 2007.

- **Service Improvements Between Cochrane and Moosonee**

  In the summer of 2007, we introduced significant service improvements on the Polar Bear Express. Passenger and freight train services were separated and passenger train frequency was increased to five return trips a week during the winter season and six return trips per week in July and August, the peak tourist season for the region. In addition, many of our customer service policies were refreshed.

- **New Motor Coach Operators Contract**

  We negotiated a 52 month contract with our motor coach operators, retroactive to September 1, 2006. This stabilizes operations and allows us to accurately forecast future labour expenses until December 31, 2010.

- **Improvements in Customer Service**

  Over the last several years, we have been working to continually improve the levels of customer service offered to our motor coach and train passengers. We have refreshed existing policies and have established several new ones, with a focus on excellence in service. We have also been working to enhance our communication with customers.

- **On-Time Performance**

  We continue to maintain a high level of on-time performance in our Motor Coach Services Department. This contributes to high customer satisfaction as we are able to provide a convenient and reliable service.

- **Partnership to Promote Tourism in Northeastern Ontario**

  We have partnered with Ontario's Northeast (ONE) Attractions Group to promote our Polar Bear Express train cooperatively with the other attractions in the region. The ONE Attractions Group has received support from the Northern Ontario Heritage Fund Corporation and Fednor and we are currently developing a marketing plan to guide our joint efforts over the next several years. The other members of the ONE Attractions Group are: the Polar Bear Habitat and Heritage Village (Cochrane), the Shania Twain Centre (Timmins), the Underground Gold Mine Tour (Timmins), Hockey Heritage North (Kirkland Lake) and the Northern Ontario Mining Museum (Cobalt).

- **Dream Catcher Express**

  The Dream Catcher Express is an exciting fall 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. The train has been enthusiastically received by travelers originating throughout the province and beyond. 98% of the train's passengers indicated that they would recommend the excursion to a friend and 88% indicated that they would ride the train again. The Dream Catcher Express is scheduled to run again in 2008, on September 26, 27, 28 and October 3, 4 and 5.

- **Santa Claus Express**

  More than 3,000 children from 15 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 once again generously supported by our employee and community volunteers, unions, and the Ontario Northland Employees Benefits Association.

Challenges

- **Fuel Costs**

  Fuel prices have escalated significantly in recent years and represent a significant portion of our rising operational costs. As a result, we have continued to apply fare increases to our passenger services in order to generate additional revenues to counter these rising costs.

- **Decline in Motor Coach Ridership**

  Ridership on our motor coaches declined by 21.7% in 2007-2008, in part due to a ten week strike by our motor coach operators. Prior to the start of the strike, ridership had declined by 2.3%. Reduced passenger numbers have also been recorded throughout the Canadian motor coach industry. We are working to mitigate the effects of these reductions.

- **Passenger Equipment**

  Our passenger equipment is ageing. Our rail passenger equipment requires refurbishment in order to improve the comfort level of our passengers, improve reliability, enhance accessibility and make additional upgrades. We will be looking more closely at our passenger equipment and planning for its renewal in the coming year.

  Our Motor Coach Services Department continues to be challenged in maintaining our ageing fleet of motor coaches. We have, however, been able to maximize the useful life of our coaches though our proactive, preventative maintenance program. 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.

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

  We were extremely pleased to introduce service improvements to our train service between Cochrane and Moosonee this summer. The creation and implementation of this new service was quite challenging; we are, however, confident in our efforts and know that these enhancements have been of significant benefit to our passengers.

- **Decreasing Population in Northeastern Ontario**

  The 2006 Census indicates that the population in northeastern Ontario has decreased by 5.3% in the last ten years (1996 to 2006), while the population for all of Ontario has increased by 13.1% over the same period. In addition, the population density of northeastern Ontario in 2006 was two people per km^2, versus 13.4 per km^2 for all of Ontario. These figures demonstrate that our northeastern Ontario operating environment offers a small, widely dispersed and decreasing population base. These factors make it challenging to maintain and grow ridership on our passenger services.

- **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 and given the rising cost of fuel. We have joined the Ontario's Northeast (ONE) Attractions Group and are working collaboratively to attract tourists to the region. We remain confident that our Polar Bear Express train offers an authentic train experience and an excellent opportunity to learn about Canadian history and culture.

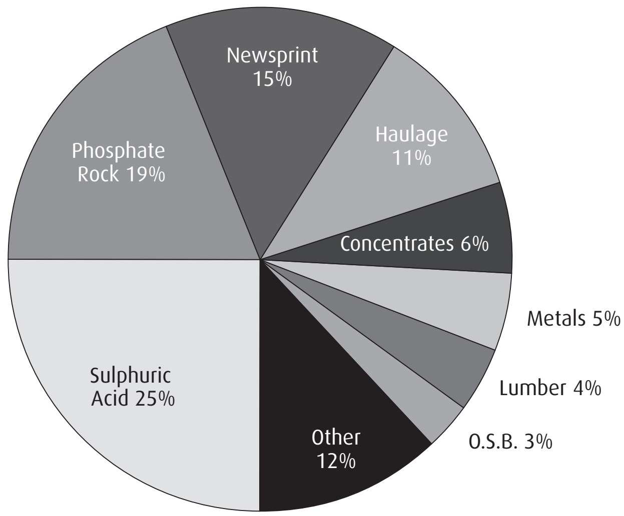
- **On-Time Performance**

  Over the last year, we recorded poor on-time performance (OTP) on both our Northlander and Polar Bear Express trains. With respect to our Northlander train, our poor OTP is the result of the fact that we do not enjoy priority while travelling on CN track between North Bay and Toronto and also, as a result of our own ageing equipment. We continue to speak with CN officials to work to minimize delays and improve our OTP and as well, are working on an equipment renewal plan to address this issue. Delays on the Polar Bear Express are predominantly a result of slow orders (reduced speed limits) on our track. A significant track maintenance program is being undertaken in the new year and will reduce these delays in the long-term.

Ontario Northland's Rail Services Division has a fleet of 26 locomotives and provides both passenger and freight train service. We operate 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. This system encompasses more than 2.5 million railway ties, 602 crossings, 90 railway bridges, underpasses and overpasses, 2,247 culverts and 115 buildings.

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.

Carloads by Commodity 2007-2008



All freight operations are commercial in nature, with the exception of operations between Cochrane and Moosonee, which are non-commercial (provincially-mandated) and receive provincial government funding. Our Northlander and Polar Bear Express passenger trains are also non-commercial in nature.

Passenger Trains

Our Rail Services Division is responsible for the maintenance and physical operation of our three passenger trains: the Polar Bear Express, the Northlander and the Dream Catcher Express.

Freight Services

The Rail Services Division is primarily engaged in providing rail freight services for the transportation of mineral and forest products, chemicals, petroleum and other products to and from northeastern Ontario and northwestern Quebec. We also provide carload rail freight and express freight services between Cochrane and Moosonee, as a non-commercial operation.

Most carload freight shipments are moved on regularly scheduled freight trains connecting with other Canadian railways. 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 the quality of transportation for 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

- **Supporting Northern Ontario Businesses**

  Some of the region's largest employers are dependent on our rail freight operations, which typically carry more than 53,000 carloads each year (the equivalent of approximately 132,500 transport truck loads). The majority of these carloads have destinations beyond our rail system.

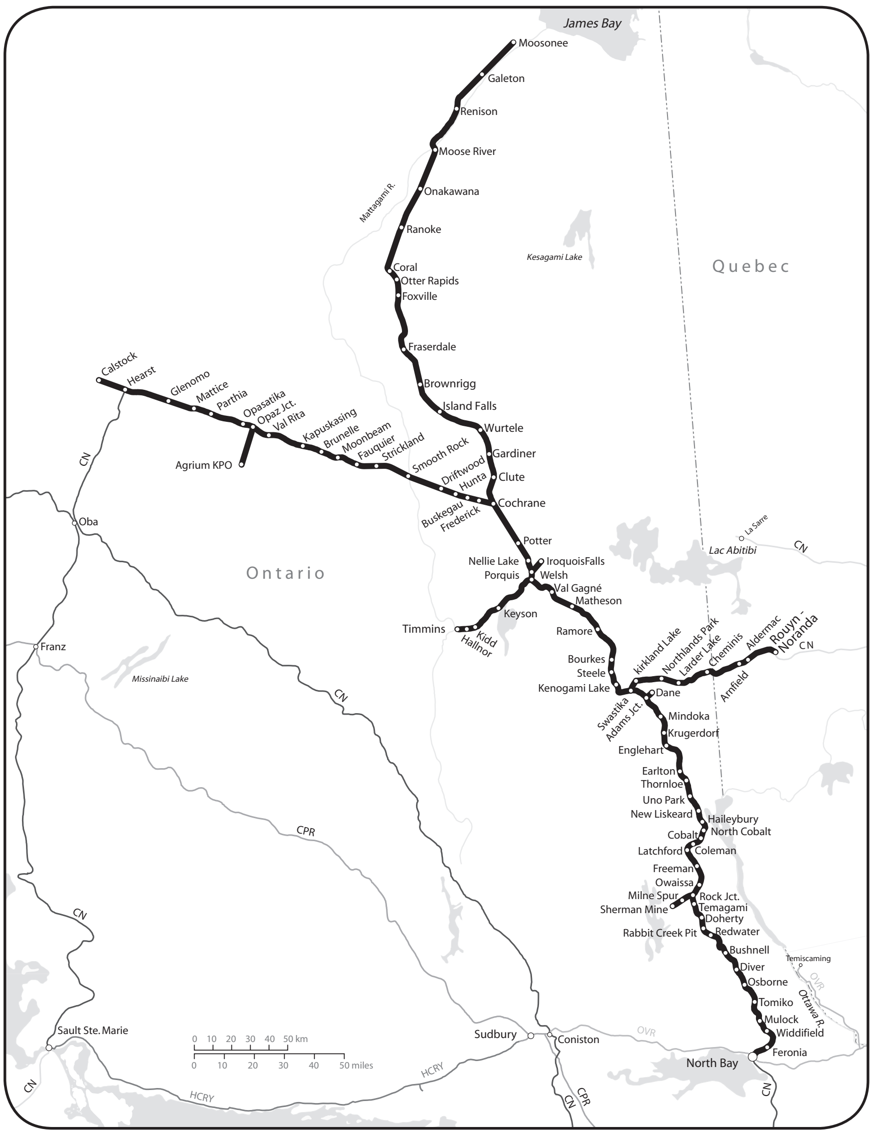
- **Customer Service**

  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 customer interaction, operating 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.

- **Passenger Equipment**

  We have begun planning for the refurbishment of two conventional coaches per year, beginning next year. These coaches are used on the Polar Bear Express. The complete refurbishment will include providing for accessibility, self-contained washroom units, new lighting and seating.

  Our Northlander equipment is ageing and was last refurbished over a six year period between 1989 and 1995, at our shop facilities in North Bay. We have begun to prepare a plan for the renewal (refurbishment) and/or replacement of this equipment (coaches, locomotives and auxiliary power units). While it will take several years to implement and complete this plan, it is clear that we must upgrade our equipment to demonstrate our commitment to our passengers and ensure the longevity of this service.



- **Rail Infrastructure Department**

  We have started the assessment of our policies and procedures within the Rail Infrastructure Department, with the assistance of an external technical advisor, to ensure that we are following best railway practices and are operating in the most safe and efficient manner. This process will continue into the new year. This Department oversees the integrity of our rail line including all rail beds, bridges, crossings, culverts and buildings.

- **Moose River Bridge**

  We have been planning for a significant work program to upgrade our Moose River Bridge to ensure the safety of this structure well into the future. The program is expected to begin in the new year and will take several years to complete. The Moose River Bridge is located on our Island Falls subdivision (the track between Cochrane and Moosonee). The 1,500' long bridge has been and continues to be inspected according to our rigid policies, which have been designed with safety in mind and which require regular inspections to be performed by qualified bridge inspection personnel.

- **Apprenticeship Training Opportunities**

  Skilled trades people are essential to the success of Ontario Northland. We recognize the value of apprenticeship programs and regularly work with the Ministry of Training Colleges and Universities (MTCU), along with community organizations, to promote apprenticeships and the skilled trades. Ontario Northland, which has offered apprenticeship training opportunities for more than 50 years, currently employs 25 apprentices who work in North Bay (16), Cochrane (8) and Hearst (1). Ontario Northland received the Ministry of Training, Colleges and Universities' 2004 Provincial Apprenticeship Employer Award for Excellence in Apprenticeship Training.

- **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 frequently make presentations at schools and to emergency services personnel, initiate public safety advertising campaigns throughout our region, and hold mock incidents to better prepare both emergency services and our own personnel in the event of an emergency.

Challenges

- **Northeastern Ontario Economy**

  The industrial landscape of northeastern Ontario provides for a limited number of significant rail freight clients for Ontario Northland and therefore, we are susceptible to market driven fluctuations, which affect the production of our customers, who are predominantly rooted in resource extraction industries. In addition, there are few opportunities to expand our customer base.

- **Downturn in Forestry Sector**

  The economic downturn in the forestry sector has resulted in a reduction in traffic from our forestry-based clients as more than seven mills that we service have either closed, suspended production, or reduced operations in the last year. In 2007-2008, our revenues from the transportation of forestry-related products were $14.0 million - $6.8 million below budget. While revenues from the transportation of mining-related products were on budget and relatively strong, the declines in forestry revenue were not offset by the increase in mining traffic.

- **Fuel Costs**

  High fuel costs continue to significantly affect our bottom line by contributing to higher than budgeted expenses and representing a growing portion of operating expenses. We continue to apply an ancillary fuel charge to our freight customers in order to offset the increase in expenses; however, we are at the same time cognizant that increases in fees may result in the curtailment of some of our customers' freight shipments.

- **Capital Investment Requirements**

  Given our lower than projected revenues, coupled with rising operational costs, it has become increasingly difficult to internally finance capital investments. As a result, we have focused on cost containment and will be looking at financing options for some of our infrastructure investments in the new year.

- **On-Time 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. In addition, our own ageing equipment has contributed to this situation. In addition, the on-time performance of our Polar Bear Express train has declined over the last year, predominantly as a result of slow orders (reduced track speeds) on our track. A significant track maintenance program is being undertaken in the new year and will reduce these delays.

- **Equipment**

  The Rail Division continues to be challenged in maintaining our ageing passenger car fleet. Much of this fleet is 1950's vintage equipment that is long overdue for major refurbishment. We have begun a program to refurbish two conventional coaches, which are used on the Polar Bear Express, each year for the next several years. We are also beginning to plan for the renewal (refurbishment) and/or replacement of Northlander equipment.

- **Freight Train Derailment**

  On March 30, 2007, one of our freight trains derailed 10 miles north of Englehart. No one was injured in the incident however, five cars carrying sulphuric acid were damaged and leaking. Emergency response personnel from Ontario Northland and from the shipper responded immediately to the incident. In addition, personnel from the Ministry of the Environment, Ministry of Natural Resources, Environment Canada, CANUTEC (the Canadian Transport Emergency Centre operated by Transport Canada) and two environmental consulting firms assisted in our clean-up efforts. Work to remediate the area has been successful, as demonstrated by ongoing monitoring of the area.

Ontario Northland offers refurbishment services to the passenger and freight car industry and, in 2006, our 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 encompass the rebuilding of passenger and freight cars from the frame up. We have expertise in the complete disassembly of cars, upgrading both electrical and mechanical systems, completing truck overhauls, and also offer interior design and layout services.

Accomplishments

- **GO Transit Contract**

  In February 2004, Ontario Northland was awarded a $46 million GO Transit contract to completely refurbish 71 commuter cars. The first completely refurbished car was delivered to GO Transit in November 2005 and, 39 completed cars had been delivered as of the end of March 2008. We are currently on schedule and are delivering a completed car of exceptional quality every two weeks. In addition, we are well positioned to secure a contract extension for the refurbishment of an additional 50 cars, at a value of $35 million. This project has the potential for the refurbishment of up to 121 cars and $81 million.

- **Internal Processes**

  Over the last year, we have been working to refine our assembly-line processes to achieve greater efficiencies and ensure our ability to deliver refurbished cars on schedule to GO Transit.

- **Refurbishment Resource Planning System**

  In 2006-2007, we introduced 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. This system is dynamic and continues to be frequently updated as new and changing requirements emerge.

- **Production Improvements**

  Changes to our production line were introduced in December 2007, which see us working on nine cars at a time, versus eight previously. By expanding the number of work stations within our production line, we have improved our ability to meet schedule, thus enhancing our revenue cash flow.

Challenges

- **Achieving Profitability**

  We have not yet turned the corner towards achieving profitability and continue to work on changes and improvements that will allow us to achieve this milestone.

- **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. We are evaluating various options which would allow us to overcome this obstacle and in the interim, have taken measures to ensure that this does not affect our ability to meet our deadlines.

- **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. We have worked to realize efficiencies in the last year in order to alleviate this concern.

- **Enhancing Productivity**

  As we work to achieve profitability, we are challenged to identify areas for improved efficiency and opportunities to enhance our production line process. By continuing to enhance our systems, we will also better position ourselves to pursue future refurbishment project opportunities.


Antera

Ontario Northland sustained a loss of $15.6 million for the year ended March 31, 2008, compared to a loss of $10.7 million for the preceding fiscal period.

Total revenues declined by approximately $4.1 million year over year. The bulk of the decline came from Rail Services, with commercial freight declining by $9.7 million as a result of weakening demand in the forestry sector and a decline in revenues from the De Beers Victor project, as it moved from construction to production. Motor Coach Services revenues also declined by approximately $2.1 million as a result of a two month labour dispute. Slight declines were also experienced in Marine Services and Rental Properties. These declines were offset by increases in revenue of $1.2 million for Ontera, which were generated by our pursuit of new revenue streams, and $2.9 million for Refurbishment, as we attained full production on the GO Transit project. As well, we received an increase of $3.5 million in government reimbursement for non-commercial operations.

An increase of $1.1 million in total operating expenses was driven predominantly by an increase in fuel expenses, which primarily affected our Rail Services Division. Efforts to curtail costs in response to declining revenues resulted in either decreasing or stable operating expenses in most of our operating divisions, with the exception of the Refurbishment Division, where expenses tracked in line with increases in revenues as full production levels were attained.

Non-operating expenses remained essentially level with the previous year, with some slight increases and decreases in these expense items offsetting one another.

On the balance sheet, total assets increased marginally by approximately $3.2 million.

Current assets increased by $4.4 million as the result of an equity investment by the Province late in the year. A slight increase in Property, Plant and Equipment was offset by decreases in development costs (amortization), our self insurance fund, as costs were incurred following a derailment on March 30, 2007 and changes to the accrued pension benefit asset.

From a liabilities and equity perspective, most items exhibited declines with the exception of:

- Long term debt incurred as a result of Ontera capital asset financing;
- An increase in accrued non pension benefit obligations resulting from charges to operations; and
- An increase in investment by the Province of Ontario with the equity investment noted earlier, as well as contributions toward the capital cost of assets used in non-commercial operations.

In addition, 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 30, 2008

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, 2008 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 are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in 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, 2008 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 30, 2008

Jim McCarter, CA
Auditor General
Licensed Public Accountant

Consolidated Balance Sheet

(dollars in thousands)

	March 31 2008	March 31 2007
Assets		
Current		
Cash and cash equivalents	**$ 4,467**	$ -
Accounts receivable (Net of allowance - $1,526; 2007 - $1,452)	**18,976**	17,831
Inventory	**18,000**	18,876
Prepaid expenses	**960**	1,219
	42,403	37,926
Development costs (Note 1)	**5,178**	5,649
Self-Insurance Fund (Note 2)		
- Market value $4,288; (2007 - $6,294)	**4,288**	6,294
Investment in property, plant and equipment (Schedule 1)	**263,793**	261,425
Accrued pension benefit asset (Note 4)	**73,167**	74,343
	$ 388,829	$ 385,637
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	**25,779**	29,419
Current portion of long-term debt (Note 5a)	**4,712**	4,509
Current portion of capital lease obligations (Note 5b)	**195**	276
Current portion of deferred revenue	**2,315**	2,726
	48,001	52,435
Deferred revenue (Note 6)	**1,346**	2,939
Provision for Self-Insurance (Note 2)	**4,288**	6,294
Long-term debt (Note 5a)	**28,979**	27,769
Capital lease obligations (Note 5b)	**107**	292
Accrued Non-Pension Benefit Obligation (Note 4)	**61,177**	57,969
	143,898	147,698
Contingencies (Note 10) / **Commitments** (Note 11)		
Province of Ontario Equity		
Investment by the Province of Ontario	**132,202**	109,583
Retained earnings	**112,729**	128,356
	244,931	237,939
	$ 388,829	$ 385,637

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)

For the year ended March 31	**2008**	2007
Balance, beginning 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
Net changes during the period		
One-time investment from Province of Ontario (Note 13)	**17,400**	-
Contributions from Province of Ontario	**7,995**	7,397
Retirements	**(362)**	-
Amortization	**(2,414)**	(1,793)
	22,619	5,604
Balance, end of period		
Net investment in property, plant and equipment	**45,576**	40,357
Net investment other than share capital	**86,626**	69,226
	$ 132,202	$ 109,583

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)

For the year ended March 31	2008	2007
Revenues (Schedule 2)	**$ 140,347**	$ 144,471
Expenses (Schedule 2)	**134,657**	133,534
Income from operations, before other revenues and expenses	**5,690**	10,937
Other revenues and expenses		
Amortization (Schedule 2)	**12,409**	12,916
Pension/non-pension expense (Schedule 2 and Note 4)	**6,627**	6,654
Interest expense (Schedule 2)	**2,851**	2,699
Investment and other income	**(2)**	(9)
Gain on sale of property, plant and equipment (Schedule 2)	**(568)**	(655)
Net expenses	**21,317**	21,605
Net loss for the period	**(15,627)**	(10,668)
Retained earnings, beginning of period	**128,356**	139,024
Retained earnings, end of period	**$ 112,729**	$ 128,356

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

(dollars in thousands)

For the year ended March 31	2008	2007
Cash provided by (used in)		
Operating activities		
Loss	**$ (15,627)**	$ (10,668)
Items not affecting cash		
Amortization (Schedule 2)	**12,409**	12,916
Gain on disposal of property, plant and equipment	**(568)**	(655)
Development costs	**471**	446
Deferred revenue	**(1,593)**	(2,181)
Pension/non-pension expense (Note 4)	**6,627**	6,654
	1,719	6,512
Changes in non-cash working capital balances		
Accounts receivable	**(1,145)**	3,023
Inventory	**876**	(262)
Prepaid expenses	**259**	(121)
Accounts payable and accrued liabilities	**(3,640)**	(2,380)
Deferred revenue	**(411)**	(375)
	(2,342)	6,397
Investing activities		
Investment in property, plant and equipment	**(17,618)**	(12,347)
Proceeds from sale of property, plant and equipment	**633**	1,711
Decrease in other assets	**(187)**	(180)
	(17,172)	(10,816)
Financing activities		
Bank Indebtedness	**(505)**	505
Long-term debt (Note 5a)	**1,413**	(2,570)
Capital lease obligations (Note 5b)	**(266)**	(314)
Contributions from the Province of Ontario	**25,395**	7,397
Other liabilities	**(2,056)**	(1,939)
	23,981	3,079
Change in cash and cash equivalents during the period	**4,467**	(1,340)
Cash and cash equivalents, beginning of period	**-**	1,340
Cash and cash equivalents, end of period	**$ 4,467**	$ -
Supplemental disclosure of cash flow information:		
Interest paid during the period and included in net loss	**$ 2,851**	$ 2,699

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

Consolidated Schedule of Investment in Property, Plant and Equipment

Schedule 1

(dollars in thousands)

For the year ended March 31			**2008**	2007
	Cost	Accumulated Amortization	**Net Book Value**	Net Book Value
Rail Services				
Roadway	$ 247,062	$ 102,708	**$ 144,354**	$ 144,163
Buildings	39,800	16,404	**23,396**	23,979
Equipment	73,524	45,056	**28,468**	30,460
Equipment under capital lease	1,022	98	**924**	977
Under construction	7,675	-	**7,675**	4,336
Telecommunications (Ontera)				
Equipment	143,851	106,763	**37,088**	42,227
Buildings	5,750	3,907	**1,843**	1,931
Under construction	7,764	-	**7,764**	303
Motor Coach Services				
Coaches	9,650	5,312	**4,338**	4,987
Buildings	2,696	97	**2,599**	2,649
Refurbishment				
Equipment	558	45	**513**	519
Buildings	3,305	216	**3,089**	3,155
Marine Services (Moosonee)				
Vessels	385	347	**38**	48
Under construction	92	-	**92**	42
Development				
Land and buildings	2,851	1,239	**1,612**	1,649
	$ 545,985	$ 282,192	**$ 263,793**	$ 261,425

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)

For the year ended March 31	2008	2007
Rail Services		
Sales revenue (Notes 9 and 15)	$ 63,057	$ 72,737
Government reimbursement (Note 7)	22,123	18,551
Operating revenue	85,180	91,288
Operating expense	76,691	76,048
Operating income	8,489	15,240
Amortization	7,626	7,699
Pension/non-pension expense (Note 4)	4,001	4,297
Gain on sale of property, plant and equipment	(585)	(647)
Interest expense	1,112	1,278
(Loss) income from operations	(3,665)	2,613
Telecommunications (Ontera)		
Sales revenue (Note 8)	31,253	30,074
Operating expense	27,416	28,206
Operating income	3,837	1,868
Amortization	3,778	4,194
Pension/non-pension expense (Note 4)	1,089	1,065
Interest expense	195	-
Loss from operations	(1,225)	(3,391)
Motor Coach Services		
Sales revenue	9,452	11,530
Operating expense	9,148	9,415
Operating income	304	2,115
Amortization	651	616
Pension/non-pension expense (Note 4)	363	399
Loss on sale of property, plant and equipment	57	-
Interest expense	183	140
(Loss) income from operations	(950)	960
Refurbishment		
Sales revenue	13,780	10,870
Operating expense	14,791	13,470
Operating (loss) income	(1,011)	(2,600)
Amortization	84	82
Pension/non-pension expense (Note 4)	704	427
Interest expense	456	466
Loss from operations	(2,255)	(3,575)

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

(dollars in thousands)

For the year ended March 31	2008	2007
Marine Services (Moosonee)		
Sales revenue	**129**	146
Government reimbursement (Note 7)	**44**	49
Operating revenue	**173**	195
Operating expense	**208**	270
Loss from operations	**(35)**	(75)
Rental Properties		
Sales revenue	**509**	514
Operating expense	**306**	281
Operating income	**203**	233
Amortization	**37**	37
Gain on sale of property, plant and equipment	**(40)**	(8)
Income from operations	**206**	204
Administration		
Operating revenue	**-**	-
Operating expense	**6,097**	5,844
Operating loss	**(6,097)**	(5,844)
Amortization	**233**	288
Pension/non-pension expense (Note 4)	**470**	466
Interest expense	**905**	815
Loss from operations	**(7,705)**	(7,413)
Total Operations		
Sales revenue	**118,180**	125,871
Government reimbursement (Note 7)	**22,167**	18,600
Total revenues	**140,347**	144,471
Expenses	**134,657**	133,534
Income from operations	**5,690**	10,937
Amortization	**12,409**	12,916
Pension/non-pension expense (Note 4)	**6,627**	6,654
Interest expense	**2,851**	2,699
Gain on sale of property, plant and equipment	**(568)**	(655)
Loss from operations	**$ (15,629)**	$ (10,677)

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

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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. (o/a Ontera), 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.

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 32).

March 31, 2008

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 the life of the expected benefit. In fiscal 2008, the Commission early adopted CICA Section 3064 "Goodwill and intangible assets". Section 3064 replaces Section 3062 "Goodwill and other tangible assets" and Section 3450 "Research and development costs". The adoption of Section 3064 does not have a material impact on the financial position and results of operations of the Commission.

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 $290,000 (2007 - $470,000) arising mainly from Rail traffic settlements between Canada and the U.S.A.

Accounting Estimates

The 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. Significant areas requiring the use of management estimates relate to the useful lives of assets for amortization. By their nature, these estimates are subject to measurement uncertainty. The effect of changes in such estimates on the financial statements in future periods could be significant. Accounts specifically affected by estimates in the financial statements are development costs, property, plant and equipment, accrued pension benefit asset, accrued liabilities and non-pension benefit obligation.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and balances with banks.

New Accounting Policies

Effective April 1, 2007 the Commission adopted new accounting standards related to financial instruments, comprehensive income and accounting changes that were issued by the Canadian Institute of Chartered Accountants (“CICA”). The new CICA standards are as follows:

Section 3855 – Financial Instruments – Recognition and Measurement. This section establishes standards for recognizing and measuring financial assets and liabilities and derivative financial instruments. All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

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New Accounting Policies (Continued)

Financial assets and liabilities classified as held-for-trading are required to be measured at fair value, with gains and losses recognized in net earnings.

Financial assets classified as held-to-maturity, loans and receivables and financial liabilities (other than those held-for-trading) are required to be measured at amortized costs using the effective interest method of amortization.

Available-for-sale financial assets are required to be measured at fair value with unrealized gains and losses recognized in Other Comprehensive Income. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market should be measured at cost.

The Commission has implemented the following classification:

- Cash and cash equivalents and Self Insurance Fund are classified as held-for-trading.
- Accounts receivables are classified as loans and receivables.
- Accounts payable and accrued liabilities, bank indebtedness, operating line of credit, long-term debt and capital lease obligations are classified as other liabilities.

Section 1530 – Comprehensive Income
This section established standards for reporting and presenting comprehensive income which is defined as the change in equity for transactions and other events from non-owner sources. Other Comprehensive Income refers to items recognized in comprehensive income that are excluded from net earnings.

The classification of the Commission's financial instruments as at April 1, 2007 and their subsequent changes to March 31, 2008 have resulted in no gains or losses that require separate presentation in Other Comprehensive Income. There was no effect on opening equity as of April 1, 2007 or on subsequent measurements as a result of applying these new standards.

Section 1506 – Accounting Changes
Effective April 1, 2007, the Commission adopted the revised CICA Section 1506 "Accounting Changes", which requires that

a) a voluntary change in accounting principles can be made if the changes result in reliable and more relevant information,

b) changes in accounting policies are accompanied with disclosures of prior period amounts and justification for the change, and

New Accounting Policies (Continued)

c) for changes in estimates, the nature and the amount of the change should be disclosed. Furthermore, this section requires disclosure of when an entity has not applied a new source of GAAP that has been issued but is not yet effective. Such disclosures are provided below.

The Commission has not made any voluntary change in accounting principles since the adoption of the revised standard.

Accounting Standards Issued but Not Yet Adopted

The CICA has issued the following new Handbook Sections and/or new recommendations which will be adopted by the Commission on April 1, 2008:

a) Section 3862, "Financial Instruments – Disclosures", describes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. The Commission is currently evaluating the impact on the adoption of this new section on the consolidated financial statements.

b) Section 1400, "General Standards of Financial Statement Presentation", was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The new requirements are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. These new requirements will not have any impact on the consolidated financial statements as the Commission is already assessing and disclosing its ability to continue as a going concern.

c) Effective January 1, 2008, the CICA has issued accounting standard Section 3031 "Inventories". Section 3031 "Inventories" will provide guidance on the method of determining the cost of the Commission's materials and supplies. The new accounting standard specifies that inventories are to be valued at the lower of cost and net realizable value. The Commission currently reflects materials and supplies at average cost. The standard requires the reversal of previously recorded write downs to realizable value when there is clear evidence that the net realizable value has increased. Additional disclosures will also be required. It is not anticipated that the adoption of Section 3031 "Inventories" will have a material impact on the Commission's financial statements. Any adjustment on the adoption of Section 3031 "Inventories" will be recognized in 2009 as an adjustment to opening inventory and opening retained earnings.

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1. Development Costs

	2008	2007
Development costs - beginning of year	**$ 5,649,000**	$ 6,095,000
Amortization	**471,000**	446,000
Development costs - end of year	**$ 5,178,000**	$ 5,649,000

2. Self-Insurance Fund

	2008	2007
Self Insurance Fund - beginning of year	**$ 6,294,000**	$ 6,004,000
Interest earned	**300,000**	246,000
Annual premium	**100,000**	100,000
Claims	**(2,406,000)**	(56,000)
Self Insurance Fund - end of year	**$ 4,288,000**	$ 6,294,000

The Commission follows the policy of self-insuring for damages from rolling stock derailments and for cargo damage. Fund assets include cash in the amount of $4,288,000 (2007 - $2,066,000) plus $NIL (2007 - $4,228,000) receivable from 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.

The claims in the year were incurred for costs associated with the March 30, 2007 derailment of one of the Commission's freight trains in a remote area of northeastern Ontario.

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, 2008 (2007 - $8,000,000) which bears interest at the Province of Ontario's cost of borrowing plus 5 basis points on the date of each advance. 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, 2008 (2007 - $7,000,000) which bears interest at the Province of Ontario's cost of borrowing plus 40 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, 2008, two letters of guarantee totalling $1,428,000 (2007 - $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, 2008 and March 31, 2007, by asset category are as follows:

	Target	**2008**	2007
Equity securities – Domestic	20% - 30%	**25%**	25%
– Foreign	10% - 30%	**22%**	22%
Debt securities	35% - 55%	**49%**	49%
Real estate	0% - 15%	**3%**	3%
Short term and other	0% - 15%	**1%**	1%
Total		**100%**	100%

a. Accrued Pension Benefit Asset

	2008	2007
Projected benefit obligations	**$ 456,899,000**	$ 495,452,000
Market value of plan assets	**503,660,000**	510,034,000
Surplus	**$ 46,761,000**	$ 14,582,000
Accrued benefit asset - beginning of year	**$ 74,343,000**	$ 77,278,000
Expense	**(1,363,000)**	(3,115,000)
Funding contributions	**187,000**	180,000
Accrued benefit asset - end of year	**$ 73,167,000**	$ 74,343,000

March 31, 2008

4. Employee Future Benefits (continued)

b. Accrued Non-Pension Benefit Obligation

	2008	2007
Accrued benefit liability - beginning of year	**$ 57,969,000**	$ 56,369,000
Expense – Non-WSIB	**3,636,000**	3,464,000
Expense – WSIB	**1,628,000**	75,000
Funding contributions – Non-WSIB	**(2,056,000)**	(1,939,000)
Accrued benefit liability - end of year	**$ 61,177,000**	$ 57,969,000

Included in the accrued non-pension benefit liability is worker's compensation benefits in the amount of $12,934,000 (2007 - $11,306,000). This amount has been determined from the most recent available actuarial calculations provided by the Workplace Safety and Insurance Board as at December 31, 2007.

c. Components of Net Periodic Pension Benefit Expense

	2008	2007
Current service cost less employee contributions	**$ 9,520,000**	$ 9,470,000
Interest cost on accrued benefit obligation	**24,689,000**	25,630,000
Expected return on plan assets	**(34,681,000)**	(35,295,000)
Amortization of initial obligation	**197,000**	197,000
Amortization of past service costs	**1,638,000**	1,195,000
Amortization of net actuarial gain	**-**	1,918,000
	$ 1,363,000	$ 3,115,000

d. Components of Net Periodic Non-Pension Benefit Expense

	2008	2007
Current service cost	**$ 2,665,000**	$ 1,001,000
Interest on accrued benefit obligation	**2,595,000**	2,538,000
Amortization of net actuarial gain	**4,000**	-
	$ 5,264,000	$ 3,539,000

e. Weighted Average Assumptions

	2008	2007
Discount rate - pension	**5.75**	5.00
Discount rate - non pension	**5.75**	5.00
Expected long-term rate of return on plan assets	**7.00**	7.50
Rate of compensation increase	**4.00**	4.00
Medical cost increases	**4.5% to 9.0%**	4.5% to 10.0%

5. Long-term Debt and Capital Lease Obligations

	2008	2007
a. Loan from Ontario Financing Authority, bearing interest at 5.22% per annum, blended monthly payments of $30,000 for 15 years beginning February 1, 2005	**$ 3,224,000**	$ 3,415,000
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.	**43,000**	541,000
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.	**10,505,000**	11,754,000
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.	**6,901,000**	7,748,000
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.	**3,138,000**	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.	**2,193,000**	2,244,000
Loan from Bank of Montreal, bearing interest at 5.11% per annum, blended monthly payments of $64,000 for 10 years beginning April 30, 2008. Secured by assets of Ontera.	**6,000,000**	250,000
Construction advance from the Bank of Montreal, bearing interest at the bank's prime rate less .75%. Further advances will be made up to $17,000,000 then converted to a fixed term loan, term not to exceed 10 years, bearing interest at bank cost of funds plus 40 basis points. Secured by assets of Ontera.	**1,500,000**	-
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.	**187,000**	326,000
	33,691,000	32,278,000
Less current portion	**4,712,000**	4,509,000
	$ 28,979,000	$ 27,796,000

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

2008-2009	$ 4,712,000
2009-2010	4,918,000
2010-2011	3,495,000
2011-2012	3,687,000
2012-2013	3,890,000
Thereafter	12,989,000
	$ 33,691,000

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

		2008		2007
b. Capital lease bearing interest of 5.93% per annum, blended monthly payments of $7,000 for 4 years beginning January 24, 2006	**$**	**139,000**	$	211,000
Capital lease bearing interest of 5% per annum, blended monthly payments of $10,000 for 3 years beginning March 1, 2006.		**108,000**		219,000
Capital lease bearing interest of 10% per annum, blended monthly payments of $11,000 for 2 years beginning November 27, 2005.		**-**		73,000
Capital lease bearing interest of 7% per annum, blended monthly payments of $1,000 for 5 years beginning September 22, 2006.		**55,000**		65,000
		302,000		568,000
Less current portion		**195,000**		276,000
	$	**107,000**	$	292,000

Payments under capital leases included above are as follows:

2008-2009	$	207,000
2009-2010		76,000
2010-2011		13,000
2011-2012		25,000
Total minimum payments		321,000
Less: amount representing interest		19,000
Obligations under capital lease	$	302,000

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 $2,265,000 (2007 - $3,961,000) has been included as deferred revenue, of which $370,000 relates to periods after March 31, 2009. The deferred revenue will be recognized based on the percentage of completion method. During 2008, $1,696,000 (2007 - $1,762,000) 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 $1,035,000 has been included as deferred revenue, of which $966,000 relates to periods after March 31, 2009. The deferred revenue will be recognized on a straight line basis over the life of the agreement. During 2008 $69,000 (2007 - $69,000) 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.

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, 2008.

Details of Government reimbursement are as follows:

	2008	2007
From Province of Ontario:		
Rail - Passenger Service and Moosonee Branch	**$ 19,623,000**	$ 16,051,000
Marine Services (Moosonee)	**44,000**	49,000
	19,667,000	16,100,000
From Transport Canada:		
Current period's operations	**2,500,000**	2,500,000
	$ 22,167,000	$ 18,600,000

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

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8. Telecommunications Revenue

The Commission's Telecommunications Division has telecommunications interconnection and traffic settlement agreements with Bell Canada that permits the two companies to exchange and settle on toll traffic and data circuits that traverse their respective networks. The Access Tariffs charged by Local Exchange Carriers are regularly reviewed by the CRTC and are not subject to any retroactive adjustments. In keeping with the Commission's accounting policy, any revenue or cost adjustments whether positive or negative are recognized in the year in which they become known and estimable.

9. Passenger Revenue

In compliance with the Travel Industry Act, the 2008 gross retail sales were $766,000 (2007 - $547,000) and the 2008 gross wholesale sales were $41,000 (2007 - $61,000).

10. Contingencies

a. Ontera Assets

O.N.Tel Inc. (operating as Ontera) has sustained losses from operations over the current and the past five periods (see Schedule 2). In response to the situation, management developed a business plan in 2007 that required a significant investment in Ontera's property, plant and equipment along with associated financing. The Province approved the plan in 2007 including the underlying capital investment component. Financing of $7,500,000 from the Bank of Montreal to support the plan was obtained in the year (see Note 5a).

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.

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. To the extent of any actual claims under these agreements, the Commission would maintain provisions for such items. Due to the nature of these agreements, the maximum exposure for future payments may be material. However, such exposure cannot be reasonably determined and no provision has been made as at the year-end date.

12. Financial Instruments

The Commission's financial instruments consist of cash and cash equivalents, accounts receivable, Self Insurance Fund, bank indebtedness, operating line of credit, accounts payable and accrued liabilities, long-term debt and, capital lease obligations.

Fair value

The fair value of cash and cash equivalents, accounts receivable, Self Insurance Fund, bank indebtedness, operating line of credit, and accounts payable and accrued liabilities, are comparable to their carrying value due to their short-term maturity date. The fair value of long-term debt and capital lease obligations is approximately equal to its carrying value since the applicable interest rates are comparable to the market rates.

Credit risk

The Commission operates in Canada. It performs on a continuing basis credit checks on its customers and maintains provisions for contingent credit losses which, once they materialize, are accounting to management's estimates.

Currency risk

The Commission undertakes transactions denominated in United States dollars and as such is exposed to fluctuations in foreign exchange rates. The Commission generates revenues and incurs expenses in Canadian and United States dollars. The Commission does not use derivative instruments to reduce its exposure to foreign currency risk.

Interest rate risk

The Commission manages its cash according to its operational needs. The Commission is exposed to interest rate cash flow risk to the extent that the credit facility has a floating rate of interest.

The Commission's long-term debts and capital lease obligations have fixed interest rates. Also, the Commission will repay its long-term debts and capital lease obligations at maturity. As a result, management is of the opinion that the risks associated with long-term debt and capital lease obligations are minimal.

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13. Contribution by the Province of Ontario

In 2008, the Province of Ontario contributed $17,400,000 as an equity investment without operating restrictions. It has been the practice of the Commission to classify transactions of this nature as investment by the Province of Ontario.

14. Related Party Transactions

During the period, the Commission charged the ONTC Contributory Pension Fund $166,000 (2007 - $177,000) for financial and administrative support.

15. Economic Dependence

During 2008, the Rail Services Division derived 83% (2007 - 35%) of its revenue from three major customers.

16. Comparative Figures

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