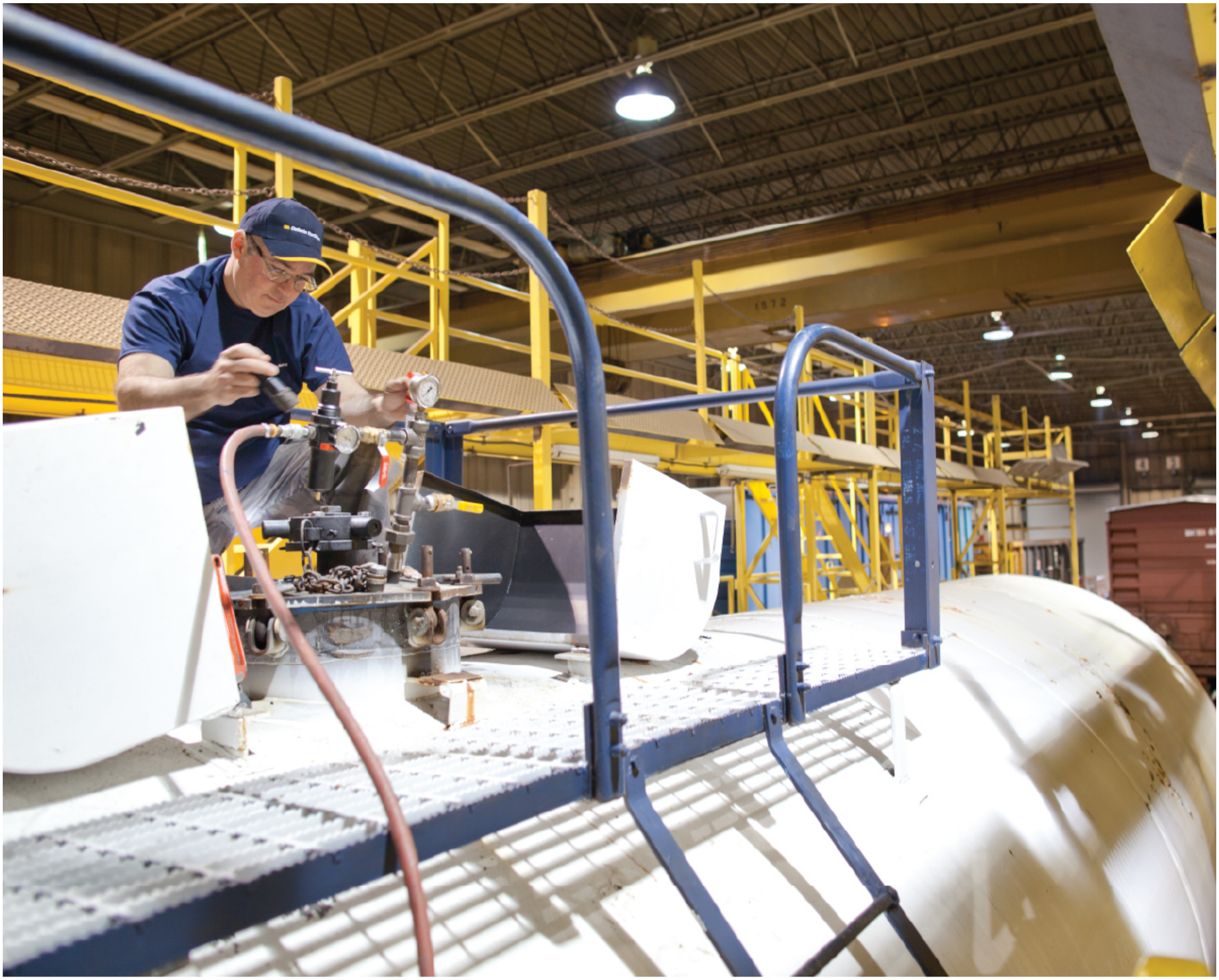

Ontario Northland

Ontario Northland Transportation Commission
2015-2016 Annual Report

www.ontarionorthland.ca

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Message from the Chair

A year of progress best sums up fiscal year 2015-2016. The transformation initiatives that were put in place the previous year began to show results, most significantly a $10 million reduction in operating expenses. This is a result of strategic decision making, innovative thinking and the collective efforts of all Ontario Northland employees to shape a sustainable and exciting future for the agency.

The year was not without challenges. A labour disruption took place in November 2015 impacting the Remanufacturing and Repair Division, the Cochrane Maintenance Facility and the mechanics in the Motor Coach Division, and the North Bay and Englehart Work Equipment Shops. Labour and management reached a fair and balanced agreement and the operating divisions quickly rebounded. Five-year agreements are now in place with four of the five unions at Ontario Northland, and the organization has been strengthened by the stability of positive labour relations.

The company's Motor Coach Services performed well; significantly reducing expenses and adding a new pilot route from Ottawa to Sudbury. This provides connectivity for communities throughout our service territory.

The Remanufacturing and Repair Centre (RRC) successfully diversified its business and increased its customer base. An increase in freight repair projects in RRC led to increased freight repair revenue. The division ended the year with a large recruitment campaign for new employees and in February 2016 over a thousand job seekers attended a job fair in the shops to submit their applications for various positions.

The Rail Division made significant progress of moving locomotive maintenance to Cochrane. Investments into facility upgrades and employee training were key initiatives that furthered this transition. By relocating this work, the division is efficiently using its locomotive assets and there is an increased capacity for external repair work on locomotives, wheels and engines in RRC.

The accomplishments in this document are only the beginning of Ontario Northland's transformation story. There is an undeniable passion and pride present inside the organization, as well as encouragement and support from all of the communities served by Ontario Northland. Because of this we are focused on not only meeting, but exceeding our transformation objectives and shining a bright light on our relatively small, but very successful, transportation agency.

Tom Laughren
Chair, Ontario Northland Transportation Commission

Highlights

REVENUE
$62.5 M

EXPENSES
Operating expenses were reduced by $10M (before amortization, interest on long-term debt, and employee future benefits)
(Note for MNDM: $9.972M reduction in operating expenses before amortization of capital assets, employee future benefits, interest on long-term debt and gain on sale of capital assets as stated in note 12 of the financial statement)

MOVING PEOPLE:
55,396 passengers travelled on the Polar Bear Express
235,277 passengers travelled on Ontario Northland's motor coaches

MOVING GOODS
27,511 carloads of freight shipped
193,041 express freight shipments between Moosonee and Cochrane weighing over 3.9 million kilograms
3,724 vehicles transported between Moosonee and Cochrane

CONTINUOUS IMPROVEMENT
We sought out feedback from over 250 employees and community members.O
We implemented 149 major business processes improvements

ECONOMIC IMPACT
Total employment income of $46.4M in over eight communities in Northeastern Ontario
For every $1 of wages there is an estimated $1.47 of estimated value add generated across the region*
Reliable transportation and shipping services provided to over 100 communities, strengthening local economies by providing good jobs, vital transportation services that connect communities

ENVIRONMENTAL IMPACT
Trains can be three to six times more efficient than trucks, moving more ton-miles per gallon of fuel**

Motor coaches are the most fuel-efficient transportation mode in North America when measured in terms of passenger miles per gallon (MPG) of fuel. Motor coaches provide 206.6 passenger MPG versus a single-occupant automobile at 27.2 passenger MPG***

* Source: Ontario Northland Economic and Social Impact Study, HDR Corp in association with Dr. Bakhtiar Moazzam, 2008
***Railway Association of Canada, 2015*
**** Prevost Reducing Energy Consumption Presentation, June 2016*

Company Overview

The Ontario Northland Transportation Commission (ONTC), an agency of the Province of Ontario, provides reliable and efficient transportation solutions to northeastern Ontario.

Our Services

Headquartered in North Bay and operating primarily in Northeastern Ontario, ONTC's services include:
• The Polar Bear Express (passenger train service between Cochrane and Moosonee);
• Rail freight services;
• Rail remanufacturing and repair services; and
• Motor Coach Services and Bus Parcel Express shipping.

Vision

Efficient and valued transportation solutions for the next 100 years.

Ontario Northland will be the transportation leader in Northern Ontario, providing efficient, valued and vital transportation solutions, including Rail Passenger and Rail Freight services, Motor Coach services, the Cochrane Station Inn, and Remanufacturing and Repair services for passenger cars, freight cars and locomotives.

Our focus will be on business and employee excellence, innovation and collaboration. We will establish cost-effective business practices, transform to a culture of continuous improvement and operate more efficiently and effectively enabling a sustainable Ontario Northland.

As employees we will take pride in our work and our workplace. We will promote a culture of open communication, fairness, diversity and creativity that will move us forward as a secure and valued workforce.

Values

By choosing to live these values, Ontario Northland employees share accountability for helping achieve efficient and valued transportation solutions for the next 100 years:

- Accountability
- Customer Satisfaction
- Positive Team/Work Environment
- Safety
- Continuous Improvement

Corporate Governance

ONTC is an agency of the Government of Ontario. It was established by government in 1902 through legislation (the Ontario Northland Transportation Commission Act).

ONTC is accountable to the Minister of Northern Development and Mines for fulfilling its legislative obligations, the management of the resources it uses, and its standards for any services it provides. Commission members are appointed by the Lieutenant Governor in Council and go through an application process established through the Public Appointments Secretariat.

ONTC and the Ministry of Northern Development and Mines (MNDM) have a Memorandum of Understanding (MOU) that was updated in July 2013. The purpose of the MOU is to set out the mandate of the agency and the accountability relationship between the ONTC and the MNDM. It also defines the responsibilities of the Minister, Deputy Minister, Chair of the Ontario Northland Transportation Commission, Commissioners and the CEO.

Mandate

On July 15, 2013 the Province of Ontario approved a revised mandate for the ONTC and directed that ONTC continue operating as a going concern while efforts to transform the agency continue with the examination and implementation of options, including divestment, restructuring, alternative service delivery, and new partnerships.

The revised mandate of the ONTC is to:

a) continue to provide and ensure efficient, safe and reliable services in Northern Ontario throughout the transformation process and as directed by the Province of Ontario through the Minister from time to time; and

b) support transformation efforts and prepare assets and business lines for transformation activities subject to the approval of the Province of Ontario.

Reporting Structure

The President and CEO reports to the ONTC, 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 Minister of Northern Development and Mines, the ministry responsible for overseeing the ONTC.

Commission Members

Thomas Laughren, Timmins, Chair
(appointment March 11, 2015 for a three year term)

Steven Carmichael, North Bay
(appointment March 11, 2015 for a three year term)

Ewen Cornick, North Bay
(appointment March 11, 2015 for a three year term)

Ted Hargreaves, North Bay
(re-appointment March 11, 2015 for a three year term)

Gaétan Malette, Timmins
(appointment March 11, 2015 for a three year term)

Ila Watson, Sault Ste. Marie
(appointment March 11, 2015 for a three year term)

Principal Officers – Ontario Northland

Corina Moore –President and Chief Executive Officer
John Thib – Vice President of Rail
Chad Evans – Vice President of Corporate Services
Dennis Higgs – Director of Remanufacturing and Repair
Tracy MacPhee – Director of Passenger Services
Geoff Cowie – General Counsel and Corporate Secretary

Employees

Ontario Northland employs over 650 individuals, who live and work in Northern Ontario and Northwestern Quebec.

2015-2016 in Review

Passenger Services

Motor Coach Services:

Scheduled and charter motor coach services provided $10.6M of revenue to the company, which was a slight decrease from the previous year. Operational efficiencies such as station closures, online ticketing and equipment renewal resulting in lower maintenance costs contributed to a significant reduction in operating expenses totalling $1M.

In January 2016 passengers responded favourably to a new pilot route connecting Ottawa and Sudbury three days a week. The route reduces wait times for those connecting in North Bay and Sudbury and has performed well since introduced, averaging 29 passengers per trip.

Ridership declined 8.2 per cent compared to the previous year due to many economic factors including competition from other modes of transportation, cost of fuel decrease and ride-sharing. The reduction of line runs in November 2015 decreased overall ridership, however, the new pilot route connecting Ottawa and Sudbury has off-set some of the decline.

Passenger Numbers:	**2015-2016**	**2014-2015**	**2013-2014**
Motor Coach	235,277	256,324	260,046

Polar Bear Express:

Passenger Services took on the management of the Freight Express services for the Polar Bear Express. The amount of shipments increased by 8.9 per cent and an additional 133 cars were transported on the train compared to the previous year.

Polar Bear Express ridership saw a slight increase this year and has remained steady. Factors that led to changes in ridership include weather patterns affecting the freezing and break-up of Moose River and the Moose Cree Wetum Road, the ice road connecting Moose Factory to the Ontario Highway System.

Passenger Numbers:	**2015-2016**	**2014-2015**	**2013-2014**
Polar Bear Express	55,396	54,605	55,727

The Polar Bear Express train continued to improve operationally with 99 per cent on-time arrivals at either Moosonee or Cochrane over the reporting period.

On-Time Arrival Performance (% based on trains arriving within 30 minutes of schedule)

	2015-2016	**2014-2015**	**2013-2014**
Polar Bear Express	99%	99%	98%

Cochrane Station Inn:

The Station Inn's occupancy rate for this fiscal period was 60 per cent, a 14 per cent increase from the previous year which is higher than the average occupancy rate in northern Ontario by almost 5 per cent. This is attributed to the increase in corporate clients and large construction projects in the Cochrane area.

Rail Services

Rail freight and passenger revenues from the Polar Bear Express increased slightly, totalling $46.9M.

Operating expenses for Rail Services totalled $54.8M, a decrease of $5.4M from the previous fiscal year due to a decline in diesel fuel prices, and a decrease in materials and parts due to operational efficiencies.

Significant savings of $2.8M were achieved in the purchase of materials and fuel. Labour costs were also reduced by $1.9M due to retirements and employees moving to other areas of the company.

Over 27,000 car loads were shipped during this period, a decrease of 1.4 per cent from the previous year due to a difference in the amount of haulage shipped for other railways.

Carloads Shipped*

2015-2016	2014-2015	2013-2014
27,511	28,455	29,043

An investment of $21.9M of capital was made to maintain rail infrastructure and equipment. Significant projects included the continued renewal of the Moose River Bridge and large bridge repair projects in the Temagami, Ramore and Kirkland Lake subdivisions. In addition, rail and tie renewals took place across the system, and culvert and ballast replacement.

Sales efforts and customer outreach was a priority for the Rail Division this fiscal year. Finding new opportunities including an intermodal hub in Cochrane and engaging new agriculture and lumber customers will shape a positive result next fiscal year.

**Carloads shipped includes haulage for other railways*
**Carloads shipped in prior years did not include haulage for other railways.*

Remanufacturing and Repair

Remanufacturing and Repair Division revenue totaled $4.2M in 2015-16. The division successfully diversified its business model in 2015-16 to include freight car repair for external customers. This resulted in an increase to freight repair revenue during the reporting period.

The division is expecting to receive its Association of American Railroads (AAR) M1002 certification in early 2016-2017 which will allow Ontario Northland to inspect and provide expert mechanical repair service to tank cars. Many training hours from a dedicated team of skilled professionals will allow the division to obtain the certification.

A significant amount of engineering work was completed on the Polar Bear Express project. The first prototype passenger car is in production and expected to be in service Fall of 2016.

The labour disruption in November 2015 halted operations for a four week period, however, momentum quickly picked up when operations resumed. Skilled trade flexibility has enhanced the competitiveness of the division and moving forward Ontario Northland is positioned to attract more repair and refurbishment work.

Corporate Services

Administrative back office support was delivered to assist the operational divisions in order to reduce costs, increase revenues and implement efficiencies. The industry-based knowledge in Finance, Human Resources, Information Technology Services (ITS), Legal, Project Management and Marketing and Communications supported the operational divisions in achieving their goals.

Performance Highlights:

- Labour agreements were reached with Teamsters Rail Conference Maintenance of Way Employees Division, the International Brotherhood of Electrical Workers and Unifor Local 103;
- Energy management lighting retrofits were made at 555 Oak Street East in North Bay, ONTC headquarters;
- Finance and ITS launched an accounts payable workflow automation;
- 18 media releases and 10 internal newsletters successfully enhanced the organization's image. This allowed the agency to attract a skilled workforce and establish trust and confidence with customers and employees;
- Corporate VoIP phone system was expanded from North Bay to include Englehart, Cochrane and Moosonee;
- An organization performance measurement process was launched. Establishing critical indicators, targets and benchmarks for each operating division and for the entire agency to continuously measure and report transformation success is a key focus moving forward;
- A real estate strategy was created, providing a strong foundation to sell surplus properties next fiscal period;
- A third party consultant was engaged to assess rail mechanical maintenance operations; and
- Rail traffic control software was upgraded.

Financial Statements

Ontario Northland Transportation Commission

Consolidated Financial Statements

For the year ended March 31, 2016

Ontario Northland Transportation Commission
Consolidated Financial Statements
For the year ended March 31, 2016

Contents

Management's Responsibility

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 public sector accounting standards. The preparation of consolidated 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 the Commission's assets and liabilities are adequately accounted for and assets safeguarded.

The Commission is responsible for ensuring that management fulfils its responsibilities for internal control and financial reporting. The Commission meets with management and external auditors to satisfy itself that each group has met its responsibilities. These consolidated financial statements have been reviewed and approved by the Commission.

These consolidated financial statements have been audited by the Auditor General of Ontario, whose responsibility is to express an opinion on whether they are fairly presented in accordance with Canadian public sector accounting standards. The Independent Auditor's Report which follows, outlines the scope of the Auditor's examination and opinion.

T. Laughren
Chair

C. Moore
President and CEO

North Bay, Ontario
June 27, 2016

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

Independent Auditor's Report

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

I have audited the accompanying consolidated financial statements of the Ontario Northland Transportation Commission, which comprise the consolidated statement of financial position as at March 31, 2016, and the consolidated statements of changes in net assets, operations, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ontario Northland Transportation Commission as at March 31, 2016 and the results of its consolidated operations and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Emphasis of Matter

Without qualifying my opinion, I draw attention to Note 1 to the consolidated financial statements which indicates that the Province of Ontario announced its intention to transform the operations of the Ontario Northland Transportation Commission. The Ontario Northland Transportation Commission's ability to maintain operations is dependent on the continued financial support from the Government of Ontario while completing its transformation plans. This condition indicates the existence of a material uncertainty that may cast doubt about the Ontario Northland Transportation Commission's ability to continue as a going concern.

Toronto, Ontario
June 27, 2016

Bonnie Lysyk, MBA, CPA, CA, LPA
Auditor General

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Ontario Northland Transportation Commission
Consolidated Statement of Financial Position
(dollars in thousands)

March 31	2016	Restated (See Note 3) 2015
Assets		
Current		
Cash and cash equivalents (Note 4)	**$ 2,052**	$ 6,217
Accounts receivable (Net of allowance - $84; 2015 - $86)	**46,279**	43,156
Inventory	**12,071**	13,413
Prepaid expenses	**367**	391
	60,769	63,177
Restricted cash (Note 13)	**4,705**	4,656
Capital assets (Note 5)	**340,673**	315,134
Accrued pension benefit asset (Note 6a)	**39,303**	35,072
	$ 445,450	$ 418,039

Liabilities and Net Assets		
Current		
Accounts payable and accrued liabilities	**$ 35,544**	$ 40,838
Current portion of long-term debt (Note 9)	**386**	366
Deferred revenue	**66**	511
	35,996	41,715
Deferred government contributions (Note 7 & 3)	**2,169**	2,068
Deferred government capital contributions (Note 8)	**227,988**	199,696
Long-term debt (Note 9)	**2,565**	2,951
Accrued non-pension benefit obligation (Note 6b)	**86,652**	82,959
Liability for contaminated sites (Note 10)	**3,500**	3,500
	358,870	332,889
Net assets		
Unrestricted	**81,875**	80,494
Internally restricted – Reserve for Self Insurance (Note 13)	**4,705**	4,656
	86,580	85,150
	$ 445,450	$ 418,039

Nature of operations (Note 1)
Contingencies (Note 14) / **Commitments** (Note 15)

Approved on behalf of the Commission:

Chair

President and CEO

The accompanying notes are an integral part of these consolidated financial statements.

Ontario Northland Transportation Commission
Consolidated Statement of Changes in Net Assets
(dollars in thousands)

For the year ended March 31		2016		Restated (See Note 3) 2015
Unrestricted Net Assets				
Balance, beginning of year (as previously stated)	**$**	**80,494**	$	108,042
Correction of a prior period error (Note 3)		**0**		(2,068)
Balance, beginning of year (restated)		**80,494**		105,974
Change in Accounting Policy (Note 10)		**0**		(3,500)
Transfer (to) from Reserve for Self Insurance (Note 13)		**(49)**		468
Excess (deficiency) of revenues over expenses for the year		**1,430**		(22,448)
Balance, end of year	**$**	**81,875**	$	80,494

Internally Restricted - Reserve for Self Insurance (Note 13)				
Balance, beginning of year	**$**	**4,656**	$	5,124
Transfers from (to) Unrestricted Net Assets		**49**		(468)
Balance, end of year	**$**	**4,705**	$	4,656

Total Net Assets	**$**	**86,580**	$	85,150

The accompanying notes are an integral part of these consolidated financial statements.

Ontario Northland Transportation Commission
Consolidated Statement of Operations
(dollars in thousands)

For the year ended March 31	**2016**	Restated (See Note 3) 2015
Revenues		
Sales and other (Note 12)	**$ 62,514**	$ 62,281
Expenses (Note 12)		
Labour and Benefits (Note 6)	**63,592**	65,234
Materials and Parts	**13,699**	19,271
Services	**9,425**	8,505
Supplies and Equipment	**4,196**	5,469
Other	**8,827**	10,209
Interest on long-term debt	**163**	210
Gain on sale of capital assets	**(315)**	(230)
Investment income	**(49)**	(62)
Amortization of capital assets	**15,507**	12,195
	115,045	120,801
Deficiency of revenues over expenses before government funding	**(52,531)**	(58,520)
Government Operating Contributions (Note 11)	**45,256**	38,459
Amortization of deferred capital contributions (Note 8)	**8,705**	4,819
Excess (deficiency) of revenues over expenses before discontinued operations	**1,430**	(15,242)
Discontinued Operations (Note 20)	**-**	(7,206)
Excess (deficiency) of revenues over expenses for the year	**$ 1,430**	$ (22,448)

The accompanying notes are an integral part of these consolidated financial statements.

Ontario Northland Transportation Commission
Consolidated Statement of Cash Flows
(dollars in thousands)

Year ended March 31	2016	Restated (See Note 3) 2015
Cash provided by (used in)		
Operating activities		
Excess (deficiency) of revenues over expenses for the year	**$ 1,430**	$ (22,448)
Items not affecting cash		
Amortization of capital assets	**15,507**	12,195
Amortization of deferred capital contributions	**(8,705)**	(4,819)
Gain on disposal of capital assets	**(315)**	(230)
Loss on disposal of Ontera	**-**	60,937
Discontinued operations	**-**	(45,604)
Employee future benefit expense	**17,220**	16,197
	25,137	16,228
Changes in non-cash working capital balances		
Accounts receivable	**(3,123)**	(11,411)
Inventory	**1,342**	810
Prepaid expenses	**24**	21
Accounts payable and accrued liabilities	**(5,294)**	22,925
Deferred government contributions and deferred revenue	**(344)**	(5,416)
	17,742	23,157
Capital activities		
Purchase of capital assets	**(41,509)**	(33,879)
Proceeds from sale of capital assets	**778**	230
Proceeds on sale of Ontera (Note 20)	**-**	6,000
	(40,731)	(27,649)
Financing activities		
Principal repayment of long-term debt	**(366)**	(19,295)
Deferred capital contributions	**36,997**	38,306
Pension contributions paid	**(13,934)**	(2,956)
Non-pension benefits paid	**(3,824)**	(3,340)
	18,873	12,715
(Decrease) increase in cash and cash equivalents during the year	**(4,116)**	8,223
Cash and cash equivalents, beginning of year	**10,873**	2,650
Cash and cash equivalents, end of year	**$ 6,757**	$ 10,873
Represented by		
Cash and cash equivalents (Note 4)	**$ 2,052**	$ 6,217
Restricted cash and cash equivalents (Note 13)	**4,705**	4,656
	$ 6,757	$ 10,873

The accompanying notes are an integral part of these consolidated financial statements.

1. Nature of Operations

The Ontario Northland Transportation Commission (the “Commission”), an Operational Enterprise of the Province of Ontario (the “Province”), delivers a variety of services, including rail freight, passenger rail and motor coach, primarily in the north-eastern portion of Northern Ontario.

In May 2013, the Province announced a new direction for transformation of the ONTC with a revised mandate stated in the Memorandum of Understanding between the Commission and the Ministry of Northern Development and Mines where the ONTC continues to operate as a going concern while efforts to transform the agency continue with the examination and implementation of options, including divestment, restructuring, alternative service delivery, and new partnerships. This involves:

(a) continuing to provide and ensuring efficient, safe and reliable services in Northern Ontario throughout the transformation process and as directed by the Province of Ontario through the Minister from time to time; and

(b) supporting transformation efforts and preparing assets and business lines for transformation activities subject to the approval of the Province of Ontario.

On April 4, 2014 the Province announced that it would transform the Ontario Northland Transportation Commission as a government-owned transportation organization while continuing to provide motor coach, Polar Bear Express, rail freight and refurbishment services. At the same time it was announced that an offer to purchase O.N. Tel Inc. (Ontera) from Bell Aliant had been accepted (see Note 20 Discontinued Operations). The purchase transaction was finalized on October 1, 2014.

The Commission’s ability to maintain operations is dependent on the continued financial support from the Province. Accordingly, these consolidated financial statements have been prepared on a going concern basis. This assumes that the Commission will be able to realize its assets and discharge its liabilities in the ordinary course of business.

These consolidated financial statements do not reflect any adjustments that would be necessary if the going concern assumption were not applicable. If the going concern assumption were not applicable for these financial statements, adjustments to the carrying value of assets would be necessary and reported revenues and expenses and statement of financial position classifications used to reflect these on a liquidation basis would differ from those applicable to a going concern.

2. Significant Accounting Policies

These consolidated financial statements are prepared in accordance with the standards applicable for government not-for-profit organizations found in the Public Sector Accounting Handbook. They include the accounts of the Commission and its wholly-owned subsidiaries, Ontario Northland International Consulting Services Inc. and Nipissing Central Railway Company.

Revenue Recognition

Revenue from all sources is recognized when all of the following conditions are met:

a) services are provided or products delivered to customers
b) there is clear evidence that an arrangement exists, and
c) collection is reasonably assured.

Rail services 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 as work reaches predetermined project milestones.

The Commission accounts for provincial contributions under the deferral method of accounting as follows:

- Unrestricted contributions are recognized as revenue when received or receivable if the amounts can be reasonably estimated and collection is reasonably assured.

- Externally restricted contributions related to operating expenditures are recognized as revenue when the related expenditures are incurred.

- The Province reimburses the Commission for the cost of certain capital assets purchased for use in operations. The Commission records the contributions as deferred capital contributions. Deferred capital contributions are amortized to revenue on a straight-line basis at rates corresponding to those of the related capital assets.

2. Significant Accounting Policies (continued)

Capital Assets

Capital assets are stated at acquisition cost less accumulated amortization. Amortization is provided using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives for principal categories of capital assets are as follows:

Land	No amortization
Roadway	20 to 50 years
Buildings	50 years
Equipment	3 to 33 years
Coaches	12 years

No amortization is provided on assets under construction until they are placed in use.

Employee Future Benefits

Pension Plans - The Commission maintains a contributory 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. A Supplementary Employee Retirement Plan (SERP) also exists for employees who earn a lifetime pension amount in excess of the Canadian Income Tax Act's maximum. The obligations under the plan are determined using the accrued benefit method reflecting projected benefits for services rendered to date. The plans are not indexed; however, there have been a variety of ad hoc increases made to pensioners.

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 net actuarial gains or losses. These expenses are recorded in the year in which employees render services to the Commission. Past services pension costs were charged to net assets on transition to P5-3250. Actuarial gains and losses are amortized on a straight-line basis over the EARSL of the employees covered by the plans (approximately 13 years). Past service costs are recognized in the period of plan amendment.

Pension fund assets are valued using current market values.

2. Significant Accounting Policies (continued)

Inventory

Materials and supplies, with the exception of used rail and wheel-sets, are valued at the lower of cost and net realizable value by using the weighted-average costing methodology. Used rail is shown at unamortized book value determined at the time of retirement. Wheel-sets are valued at standard cost. The Commission uses the same cost formulas for all inventories having a similar nature and use to the Commission. When net realizable value is less than carrying cost, inventory is written down accordingly. When circumstances which previously caused inventories to be written down no longer exist, that previous impairment is reversed.

The cost of inventory expensed to operations and used in capital projects for 2016 was $9,478 (2015 - $17,084).

Impairment of Capital Assets

Capital assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the capital asset may not contribute to the Commission's ability to deliver services. Recoverability is measured by a comparison of the carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, both the asset and any related deferred capital contributions are written down by the amount by which the carrying amount of the asset exceeds the fair value of the asset. When quoted market prices are not available, the Commission uses the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset as an estimate of fair value.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated at the prevailing rates of exchange at the Consolidated Statement of Financial Position date. Revenues and expenses are translated at the rates of exchange in effect at the transaction date. Realized and unrealized gains and losses are included in the determination of excess of revenue over expenses. Included in Rail revenue is a foreign currency gain of $ 2,245 (2015 - gain of $988) arising mainly from rail traffic settlements between Canada and the U.S.A.

Income Taxes

As a not-for-profit operational enterprise of the Province, 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.

2. Significant Accounting Policies (continued)

Accounting Estimates

The preparation of the consolidated financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the useful lives of capital assets, valuation allowances for accounts receivable and inventory, liability for contaminated sites, and obligations for pension and non-pension post employment benefits. By their nature, these estimates are subject to measurement uncertainty. The effect of changes in such estimates on the consolidated financial statements in future periods could be significant. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the consolidated statement of operations in the year in which they become known.

Cash and Cash Equivalents

Cash includes cash on hand, balances with banks, and internally restricted cash.

Financial Instruments

The Commission classifies its financial instruments as either fair value or amortized cost. The accounting policy for each category is as follows:

Fair value

This category includes cash and cash equivalents which is initially recognized at cost and subsequently carried at fair value.

Transaction costs related to financial instruments in the fair value category are expensed as incurred.

Amortized cost

This category includes accounts receivable, accounts payable and accrued liabilities and long-term debt. They are initially recognized at cost and subsequently carried at amortized cost using the effective interest rate method, less any impairment losses on financial assets, except for contributions, which are initially recognized at fair value.

Transaction costs related to financial instruments in the amortized cost category are added to the carrying value of the instrument.

Writedowns on financial assets in the amortized cost category are recognized when the amount of a loss is known with sufficient precision, and there is no realistic prospect of recovery. Financial assets are then written down to net recoverable value with the writedown being recognized in the statement of operations.

(dollars in thousands)

2. Significant Accounting Policies (continued)

Liabilities for Contaminated Sites

A contaminated site is a site at which substances occur in concentrations that exceed the maximum acceptable amounts under an environmental standard. Sites that are currently in productive use are only considered a contaminated site if an unexpected event results in contamination. A liability for remediation of contaminated sites is recognized when the Commission is directly responsible or accepts responsibility; it is expected that future economic benefits will be given up; and a reasonable estimate of the amount can be made. The liability includes all costs directly attributable to remediation activities including post remediation operations, maintenance and monitoring. The liability is recorded net of any expected recoveries.

3. Prior Period Adjustment

During the current fiscal year the Commission corrected the accounting for an externally restricted contribution that was received in a prior year. This correction was accounted for retroactively. The result of this correction on these financial statements was the reduction of unrestricted net assets and accounts receivable in the amount of $2,068 and an increase in deferred government contributions and cash and cash equivalents in the amount of $2,068 as at April 1, 2014.

4. Cash and Cash Equivalents

	2016	Restated (See Note 3) 2015
Cash (overdraft)	**$ (117)**	$ 4,149
Externally restricted cash	**2,169**	2,068
Total	**$ 2,052**	$ 6,217

(dollars in thousands)

5. Capital Assets

	2016			2015
	Cost	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Rail Services				
Roadway	**$ 410,346**	**$ 154,001**	**$ 256,345**	$ 244,170
Buildings	**46,515**	**23,337**	**23,178**	22,668
Equipment	**88,363**	**62,081**	**26,282**	28,385
Under construction	**19,483**	**-**	**19,483**	7,127
Motor Coach Services				
Buildings	**2,865**	**619**	**2,246**	2,312
Coaches	**9,541**	**1,934**	**7,607**	5,823
Refurbishment				
Buildings	**3,999**	**769**	**3,230**	2,898
Equipment	**1,082**	**209**	**873**	395
Development				
Land and buildings	**2,962**	**1,533**	**1,429**	1,356
	$ 585,156	**$ 244,483**	**$ 340,673**	$ 315,134

(dollars in thousands)

6. 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 Commission's pension plans have an annual measurement date of December 31st.

The accrued pension benefit asset and non-pension benefit obligation and expenses are determined annually by independent actuaries in accordance with accepted actuarial practices and Canadian public sector accounting standards using management's best estimates. The date of the most recent actuarial valuation for the contributory pension plans for funding purposes was January 1, 2014. In accordance with existing pension regulations, annual valuations will be completed for the Commission's pension plans. The date of the most recent report for accounting purposes for the non-pension post employment benefit plan was December 31, 2015.

The pension plan's asset target percentage allocation and average asset allocation as at March 31, 2016, by category are as follows:

		Target	**2016**	2015
Equity securities	– Domestic	20% - 30%	**26.9%**	28.8%
	– Foreign	10% - 30%	**24.3%**	24.7%
Debt securities		35% - 55%	**45.4%**	43.9%
Real estate		0% - 15%	**1.8%**	2.0%
Short-term and other		0% - 15%	**1.6%**	0.6%
Total			**100%**	100%

(dollars in thousands)

6. Employee Future Benefits (continued):

a. Reconciliation of accrued benefit obligation to accrued benefit asset (liability):

Pension Plans:

	Pension	SERP	2016 Total	2015 Actual
Accrued benefit obligation	**$ (536,686)**	**$ (3,509)**	**$ (540,195)**	$ (526,421)
Plan assets at fair value	**524,801**	**-**	**524,801**	514,401
Funded status - plan (deficit) surplus	**(11,885)**	**(3,509)**	**(15,394)**	(12,020)
Unamortized net actuarial loss	**53,398**	**1,299**	**54,697**	47,092
Accrued benefit asset (liability) net of valuation allowance, end of year	**$ 41,513**	**$ (2,210)**	**$ 39,303**	$ 35,072

	Pension	SERP	2016 Total	2015 Actual
Accrued benefit asset, beginning of year	**$ 37,165**	**$ (2,093)**	**$ 35,072**	$ 40,384
Employee future benefit expense	**(9,361)**	**(342)**	**(9,703)**	(8,268)
Funding contributions	**13,709**	**225**	**13,934**	2,956
Accrued benefit asset, end of year	**$ 41,513**	**$ (2,210)**	**$ 39,303**	$ 35,072

(dollars in thousands)

6. Employee Future Benefits (continued):

b. Reconciliation of accrued benefit obligation to accrued benefit asset (liability)

Non-Pension Benefit Plans:

		2016		2015
Accrued benefit obligation, end of year	**$**	**(87,343)**	$	(86,100)
Unamortized net actuarial gain		**691**		3,141
Accrued benefit liability, end of year	**$**	**(86,652)**	$	(82,959)

		2016		2015
Accrued benefit liability, beginning of year	**$**	**(82,959)**	$	(82,894)
Benefit expense		**(7,517)**		(3,405)
Funding contributions		**3,824**		3,388
Other		**-**		(48)
Accrued benefit liability, end of year	**$**	**(86,652)**	$	(82,959)

Included in the accrued non-pension benefit liability are workers' compensation benefits in the amount of $ 15,675 (2015 - $14,662). This amount has been determined from the most recent available actuarial calculations provided by the Workplace Safety and Insurance Board as at December 31, 2015.

c. Components of Net Periodic Pension Benefit Expense

		2016		2015
Current service cost less employee contributions	**$**	**5,050**	$	7,447
Interest on accrued benefit obligation		**29,735**		29,093
Expected return on plan assets		**(29,006)**		(28,162)
Amortization of net actuarial loss		**3,924**		4,047
Curtailment gain (Note 20)		**-**		(4,157)
	$	**9,703**	$	8,268

(dollars in thousands)

6. Employee Future Benefits (continued):

d. Components of Net Periodic Non-Pension Benefit Expense

		2016		2015
Current service cost	**$**	**3,759**	$	1,085
Interest on accrued benefit obligation		**2,530**		2,565
Amortization of net actuarial losses		**1,228**		1,922
Curtailment gain (Note 20)		**-**		(2,167)
	$	**7,517**	$	3,405

Total pension and non-pension benefit expense included in Labour and Benefits on the Statement of Operations is $17,220 (2015 - $17,997).

e. Weighted Average Assumptions

	2016	2015
Discount rate - pension	**5.50%**	5.75%
Discount rate - non pension	**3.55%**	3.94%
Discount rate – long-term disability	**3.55%**	3.94%
Discount rate - WSIB	**4.75%**	4.75%
Expected long-term rate of return on plan assets	**5.50%**	5.75%
Rate of compensation increase		
2016	**1.2 %**	3.0%
2017 to 2019	**2.0 %**	3.0%
2020	**2.5 %**	3.0%
2021 & thereafter	**3.0%**	3.0%
Average remaining service period (years)	**12**	12
Drug cost increases (grading down to 5% in 2020)	**7.50%**	6.00%
Medical and hospital cost increases	**5.00%**	5.00%
Dental cost increases	**4.50%**	4.50%
Vision care cost increases	**0%**	0%

(dollars in thousands)

7. Deferred Contributions

Deferred contributions are restricted funds received from the Province to be used only on future expenditures relating to refurbishment bids for new contracts. These contributions will be recognized as revenue in the fiscal year the related expenditures are incurred.

The change in the deferred contributions balance is as follows:

		2016		Restated (See Note 3) 2015
Balance, beginning of year	**$**	**2,068**	$	2,068
Interest income		**101**		-
Balance, end of year	**$**	**2,169**	$	2,068

8. Deferred Capital Contributions

Deferred capital contributions represent the unamortized capital contributions received from the Province to fund the acquisition of capital assets. The amortization of deferred capital contributions is recorded as revenue in the consolidated statement of operations using rates similar to those used to amortize the related assets acquired.

The changes in the unamortized deferred capital contributions balance are as follows:

		2016		2015
Balance, beginning of year	**$**	**199,696**	$	179,038
Contributions from the Province		**36,997**		38,306
Amortization to revenue – Rail Services, Motor Coach Services, and Refurbishment		**(8,705)**		(4,819)
– Telecommunications (Ontera)		**-**		(678)
Retirements and transfers		**-**		(12,151)
Balance, end of year	**$**	**227,988**	$	199,696

(dollars in thousands)

9. Long-term Debt

		2016		2015
Loan from Ontario Financing Authority, bearing interest at 5.22 % per annum, repayable in blended monthly payments of $30 for 15 years beginning February 1, 2005	**$**	**1,269**	$	1,560
Loan from Ontario Financing Authority, bearing interest at 4.90% per annum, repayable in blended monthly payments of $13 for 25 years beginning February 1, 2006.		**1,682**		1,757
		2,951		3,317
Less current portion		**386**		366
Long-term debt	**$**	**2,565**	$	2,951

Interest on long-term debt was $159 (2015 - $699).

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

2016-2017	$	386
2017-2018		406
2018-2019		428
2019-2020		390
2020-2021		96
Thereafter		1,245
	$	2,951

10. Contaminated sites

The liability for remediation results from specific minerals contaminating soil in a former transloading operation. Based on engineering studies completed to date, the estimated liability is $3,500 (2015 - $3,500). This liability is subject to measurement uncertainty and the Commission will be conducting further studies in the future. Changes to this estimated liability will be recorded in the year they become known.

(dollars in thousands)

11. Government Contributions

A Memorandum of Understanding between the Commission and the Minister of Northern Development and Mines dated July 15, 2013, defines the amount of operating and capital contributions provided each fiscal year.

Details of Government contributions received during the year are as follows:

	2016	2015
Ministry of Northern Development and Mines:		
Rail - Passenger Service and Moosonee Branch	**$ 16,841**	$ 16,127
Cash deficiency and other	**18,533**	22,332
Pension deficit funding pressure	**9,882**	-
	$ 45,256	$ 38,459
Telecommunications (Ontera) (Note 20) (i)	**-**	52,092
	$ 45,256	$ 90,551
Capital contributions (Note 8)	**36,997**	38,306
Total Government contributions	**$ 82,253**	$ 128,857

(i) The Government provided a one-time contribution of $52,092 to support the sale of Ontera.

12. Segmented Information Disclosures

The Commission is a diversified operational enterprise of the Province of Ontario that provides a wide range of services to its customers in Northeastern Ontario such as rail and motor coach transportation, refurbishment and freight services. Distinguishable functional segments have been separately disclosed in the segmented information. The nature of the segments and the activities they encompass are as follows:

Rail Services

Rail services relates to providing logistics and transportation solutions and the shipment of large quantities of products to and from Northeastern Ontario.

Motor Coach Services

Motor coach services provides shipping solutions and passenger transportation to connect communities throughout Northeastern Ontario.

Remanufacturing and Repair

The Remanufacturing and Repair team is responsible for the repair and rehabilitation of railway rolling stock from customers spanning North America.

Development

Development provides rental of properties to external customers in order to reduce overall costs.

Administration

This relates to the expenses for the operations of the Commission itself and cannot be directly attributed to specific segments.

(dollars in thousands)

12. Segmented Information Disclosures (continued)

	Rail Services	Motor Coach Services	Remanufacturing and Repair	Development	Administration	Government Operating Contributions	2016 Total
Revenues	46,932	10,564	4,235	783	-	-	62,514
Expenses							
Labour and fringe benefits	31,519	4,927	1,309	-	8,617	-	46,372
Materials and parts	10,911	2,212	421	48	107	-	13,699
Services	4,529	2,499	425	113	1,859	-	9,425
Supplies and equipment	3,253	406	151	87	299	-	4,196
Other	4,544	1,289	361	91	2,542	-	8,827
	54,756	11,333	2,667	339	13,424		82,519
Excess (deficiency) revenues over expenses before items below:	(7,824)	(769)	1,568	444	(13,424)	-	(20,005)
Interest on long-term debt	-	84	75	-	4	-	163
(Gain) loss on sale of capital assets	(645)	330	-	-	-	-	(315)
Investment income	-	-	-	-	(49)	-	(49)
Amortization of capital assets	11,776	834	99	37	2,761	-	15,507
Employee future benefits	12,529	1,543	1,064	-	2,084	-	17,220
Excess (deficiency) of revenues over expenses before government funding	(31,484)	(3,560)	330	407	(18,224)	-	(52,531)
Government operating contributions	-	-	-	-	-	45,256	45,256
Amortization of deferred capital contributions	5,421	614	20	-	2,650	-	8,705
Excess (deficiency) of revenues over expenses	(26,063)	(2,946)	350	407	(15,574)	45,256	1,430

(dollars in thousands)

12. Segmented Information Disclosures (continued)

	Rail Services	Motor Coach Services	Remanufacturing and Repair	Development	Administration	Government Operating Contributions	2015 Total
Revenues	46,407	10,700	4,683	491	-	-	62,281
Expenses							
Labour and fringe benefits	33,364	4,741	5,330	-	5,602	-	49,037
Materials and parts	13,681	2,979	2,393	76	142	-	19,271
Services	3,697	2,812	104	108	1,784	-	8,505
Supplies and equipment	3,989	480	402	235	363	-	5,469
Other	5,475	1,296	92	88	3,258	-	10,209
	60,206	12,308	8,321	507	11,149		92,491
Excess (deficiency) revenues over expenses before items below:	(13,799)	(1,608)	(3,638)	(16)	(11,149)	-	(30,210)
Interest on long-term debt	29	81	81	-	19	-	210
(Gain) loss on sale of capital assets	(413)	183	-	-	-	-	(230)
Investment income	-	-	-	-	(62)	-	(62)
Amortization of capital assets	11,322	638	87	37	111	-	12,195
Employee future benefits	11,524	1,349	1,445	-	1,879	-	16,197
Excess (deficiency) of revenues over expenses before government funding	(36,261)	(3,859)	(5,251)	(53)	(13,096)	-	(58,520)
Government operating contributions	-	-	-	-	-	38,459	38,459
Amortization of deferred contributions	4,673	133	13	-	-	-	4,819
Excess (deficiency) of revenues over expenses	(31,588)	(3,726)	(5,238)	(53)	(13,096)	38,459	(15,242)

13. Internally Restricted Net Assets – Reserve for Self Insurance

The Commission follows the policy of self-insuring for damages from rolling stock derailments and for cargo damage. Annually the Commission gives consideration to transferring funds from its' unrestricted net assets to the Reserve for Self Insurance (the "Reserve") to finance such costs. Interest earned on the reserve balance and claims expensed in the reserve balance are recorded as revenue and expenses in the consolidated statement of operations then transferred to/from the Reserve.

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

14. Contingencies

In the normal course of its operations, various statements of claim have been issued against the Commission claiming damages for personal injury, property damages, environmental actions and employment-related issues. Damages, if any, cannot be estimated at this time and in any event the Commission is of the opinion that these claims are unfounded or covered by insurance after application of a $2,000 deductible. Should any loss result, it would be charged to the consolidated statement of operations when the amount is ascertained.

15. Commitments

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 exposure for future payments may be material. However, such exposure would be based on certain actions of the Commission that have not occurred and as such no provision has been made as at the year-end date.

16. Economic Dependence

The Rail Services Division derives substantially all of its revenue from four major customers.

17. Settlement Expenses

In connection with the cancellation of the Northlander passenger train operation in 2012, a wage settlement agreement was negotiated with the United Steelworkers, the bargaining agent for those employees. The agreement was signed in August 2013 and will result in wage continuation and maintenance of basic rates payments extending into August 2017 amounting to $2,913. In the current fiscal year $956 was paid out relating to this obligation.

(dollars in thousands)

18. Financial Instrument Classification

The following table provides cost and fair value information of financial instruments by category. The maximum exposure to credit risk would be the carrying value as shown below.

			2016
	Fair Value	**Amortized Cost**	**Total**
Cash and cash equivalents	**$ 2,052**	**$ -**	**$ 2,052**
Accounts receivable	**-**	**46,279**	**46,279**
Accounts payable and accrued liabilities	**-**	**35,544**	**35,544**
Long-term debt	**-**	**2,951**	**2,951**
	$ 2,052	**$ 84,774**	**$ 86,826**

			Restated (See Note 3) 2015
	Fair Value	Amortized Cost	Total
Cash and cash equivalents	$ 6,217	$ -	$ 6,217
Accounts receivable	-	43,156	43,156
Accounts payable and accrued liabilities	-	40,838	40,838
Long-term debt	-	3,317	3,317
	$ 6,217	$ 87,311	$ 93,528

(dollars in thousands)

18. Financial Instrument Classification (continued)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

				2016
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	**$ 2,052**	**$ -**	**$ -**	**$ 2,052**

				Restated (See Note 3) 2015
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 6,217	$ -	$ -	$ 6,217

There were no transfers between Level 1 and 2 for the years ended March 31, 2016 and 2015. There were no transfers in or out of Level 3.

(dollars in thousands)

19. Financial Instrument Risk Management

Credit risk

Credit risk is the risk of financial loss to the Commission if a debtor fails to make payments of interest and principal when due. The Commission is exposed to this risk relating to its cash and accounts receivable. The Commission holds its cash accounts with federally regulated chartered banks who are insured by the Canadian Deposit Insurance Corporation. In the event of default, the Commission's cash accounts are insured up $400,000 (2015 - $400,000).

Accounts receivable are due from customers and the Province of Ontario. Credit risk is mitigated by financial approval processes before a customer is granted credit. The Commission measures its exposure to credit risk based on how long the amounts have been outstanding. An impairment allowance is set up based on the Commission's historical experience regarding collections. The amounts outstanding at year end were as follows:

March 31, 2016					**Past Due**
	Total	**Current**	**1-30 days**	**31-60 days**	**over 61 days**
Government receivables	**$ 37,395**	**$ 37,395**	**$ -**	**$ -**	**$ -**
Customer receivables	**8,961**	**7,827**	**195**	**180**	**759**
Other receivables	**7**	**7**	**-**	**-**	**-**
Gross receivables	**46,363**	**45,229**	**195**	**180**	**759**
Less: impairment allowances	**(84)**	**-**	**-**	**-**	**(84)**
Net receivables	**$ 46,279**	**$ 45,229**	**$ 195**	**$ 180**	**$ 675**

Restated (See Note 3) March 31, 2015					Past Due
	Total	Current	1-30 days	31-60 days	over 61 days
Government receivables	$ 34,055	$ 34,055	$ -	$ -	$ -
Customer receivables	7,857	5,422	1,553	188	694
Other receivables	1,330	1,330	-	-	-
Gross receivables	43,242	40,807	1,553	188	694
Less: impairment allowances	(86)	-	-	-	(86)
Net receivables	$ 43,156	$ 40,807	$ 1,553	$ 188	$ 608

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

19. Financial Instrument Risk Management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: currency risk, interest rate risk and equity risk.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Currency risk

Currency risk relates to the Commission operating in different currencies and converting non-Canadian earnings at different points in time when adverse changes in foreign currency rates occur. The Commission maintains a USD bank account to receive USD from customers and to pay USD to suppliers and other carriers. There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Interest rate risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Commission is exposed to this risk through its interest bearing long-term debt.

The Commission's long-term debt as described in Note 8 would not be impacted as the inherent rate of the debt has been fixed.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Commission is not exposed to this risk.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

Liquidity risk

Liquidity risk is the risk that the Commission will not be able to meet all cash outflow obligations as they come due. The Commission mitigates this risk by monitoring cash activities and expected outflows through extensive budgeting and regular reports to the Province of Ontario.

(dollars in thousands)

19. Financial Instrument Risk Management (continued)

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows of financial liabilities):

	2016			
	Within 6 months	**6 months to 1 year**	**1-5 years**	**> 5 years**
Accounts payable	**$ 35,544**	**$ -**	**$ -**	**$ -**
Long-term debt	**193**	**193**	**1,320**	**1,245**
Total	**$ 35,737**	**$ 193**	**$ 1,320**	**$ 1,245**

	2015			
	Within 6 months	6 months to 1 year	1-5 years	> 5 years
Accounts payable	$ 30,650	$ 10,188	$ -	$ -
Long-term debt	183	183	1,701	1,250
Total	$ 30,833	$ 10,371	$ 1,701	$ 1,250

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

(dollars in thousands)

20. Discontinued Operations

As part of the Province's divestment plan announced in March 2012, the Commission accepted the terms of a Share Purchase Agreement (SPA) with Bell Aliant on March 29, 2014 to dispose of its 100% interest in Ontera. The purchase transaction was finalized on October 1, 2014. The SPA outlines the sale, and the costs to be incurred by ONTC, including severance, pension and early bank loan repayments. Any transaction costs associated with the sale of Ontera for which the Commission is directly responsible have been reflected in the current year's financial results, as separate line items.

Selected financial information of the Telecommunications Operations (Ontera) are as follows:

	6 month period ended September 30, 2014
Sales revenue	$ 12,348
Operating expense	10,668
Excess of revenue over expenses before items noted below	1,680
Amortization of capital assets	(2,512)
Amortization of deferred capital contributions	678
Employee future benefit expense	(1,800)
Interest expense	(154)
Interest and penalties relating to early payment of long term debt	(2,577)
Deficiency of revenue over expenses before loss on disposal	(4,685)
Government contributions (Note 11)	52,092
Pension and Non-pension curtailment gains (Note 6)	6,324
Loss on disposal of shares of Ontera (i)	(60,937)
Loss from discontinued operations	$ (7,206)

(i) The loss on disposal of shares of Ontera of $60,937 is represented by proceeds of $6,000 in cash less the carrying value of the investment of $26,436, and other purchase price adjustments and commitments by the Commission to support future severance and capital expenditures of $40,501. Certain costs associated with the operations of Ontera and its disposition, as well as technical and advisory costs supporting the updating of by-laws and policies, were incurred by Infrastructure Ontario and paid for by the Ministry of Northern Development and Mines. These costs total approximately $6,500 for the three years ended March 31, 2015 and are not included in these financial statements.

21. Comparative Figures

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

2015-2016 Annual Report
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