Ontario Northland

Ontario Northland Transportation Commission
2013-2014 Annual Report

www.ontarionorthland.ca

2013-2014 Annual Report

Ontario Northland Transportation Commission
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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);
- Ontera telecommunications services;
- Rail freight services;
- Refurbishment services; and
- Scheduled and charter motor coach services and Bus Parcel Express.

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 recently 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 responsibilties of the Minister, Deputy Minister, Chair of the Ontario Northland Transportation Commission, the Board, and the CEO.

Mandate

On March 23, 2012 the Province of Ontario revised the mandate for the ONTC directing that the assets of the ONTC be divested, that alternative service delivery models be implemented to deliver transportation services in Northern Ontario and that the ONTC be dissolved.

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

During the 2013-2014 fiscal period the board consisted of:

Ted Hargreaves, North Bay,
Chair
(appointment April 1, 2013 to March 31, 2014)

Philip Howell, Toronto,
CEO of the Financial Services Commission of Ontario
(appointment April 1, 2013 to December 4, 2013)

Mahmood Nanji, Toronto,
Assistant Deputy Minister,
Ministry of Economic Development and Innovation
(appointment April 1, 2013 to December 4, 2013)

Greg Percy, Toronto,
Vice President, Operations, Metrolinx
(appointment April 1, 2013 to March 31, 2014)

Principal Officers – Ontario Northland

Paul Goulet – President and Chief Executive Officer
Kevin Donnelly – Vice President of Finance and Administration
Corina Moore – Chief Operating Officer and Vice President Refurbishment
Amedeo Bernardi – Vice President and General Manager of Ontera
John Thib – Vice President of Rail
Geoff Cowie – General Counsel

Employees

Ontario Northland employs about 900 individuals, who live and work in Northern Ontario and Northwestern Quebec.

As a Crown Agency ONTC employees fall under the same guidelines as all public servants and must report any incentives or perquisites that they receive from the company. After six months of employment, employees and their immediate family are issued passes allowing them no cost rail travel on the Polar Bear Express train. Travel is subject to space/availability on date of travel. A 50% discount is offered to employees who travel by bus to/from destinations within Northeastern Ontario. Employees are also eligible to receive reduced freight rates between Cochrane and Moosonee.

Financial Statements are located on page 12 to 35. The audited financial statements list three wholly-owned subsidiaries – Ontera, Ontario Northland International Consulting Services, and Nipissing Central Railway. The Rouyn subdivision (known as the Nipissing Central Railway) falls under Rail Services section of this report and Ontario Northland International Consulting Services has been inactive.

Message from the Chair

One of the most significant events in this fiscal period was the province's amendment of its Memorandum of Understanding which directs that "the ONTC continue operating as a going concern while efforts to transform the agency continues with the examination and implementation of options, including divestment, restructuring, alternative service delivery, and new partnerships."

Transformation is an opportunity for the organization to put in place an efficient business model and make much needed changes. Additionally this new mandate reassures our customers and partners that ONTC will continue to provide transportation services to northeastern Ontario.

The sales process for Ontera, the telecommunications division of ONTC, was initiated in the previous fiscal year and continued throughout 2013-2014. Infrastructure Ontario lead the sales process having received and evaluated formal proposals to purchase, manage and operate Ontera. A final sales agreement was made in March 2014 with Bell Aliant.

Motor coach services saw increased passenger numbers and new equipment assisted in the delivery of that service. The Polar Bear Express passenger train continued to operate between Cochrane and Moosonee with an impressive 98 per cent on time arrival average.

Rail services continued to experience losses as traditional resource based customers faced their own economic challenges and demand for freight decreased.

Refurbishment completed the Agence métropolitaine de transport contract and continues to do complete work for Metrolinx and Cad Railway Industries Ltd.

ONTC employees continue to impress by focusing on delivering efficient transportation and telecommunication services despite the many challenges.

Ted Hargreaves,
Chair, Ontario Northland Transportation Commission

2013-2014 in Review

Passenger Services

The passenger numbers for motor coach services grew 8 per cent. With a capital investment of $2 million, three new buses were added to the fleet in December to assist with this increased demand and allowed some older coaches to be retired.

The division reduced the number of long-term charter contracts to meet increased demand on the scheduled routes,

Ridership on the Polar Bear Express train decreased by 11 per cent. This could be attributed to the decrease in population in the communities alongside the James Bay coast, the cancellation of the connecting train to Toronto (the Northlander) and an extended winter road season. Extra service was added to the Polar Bear Express during March Break at the request of the community.

The customer satisfaction rate on the Polar Bear Express was 71 per cent, an 8 per cent decline from the previous year, falling short of the performance measure of 95 per cent.

Online ticketing was added to the corporate website in February 2014. Online bus tickets require passengers to choose a fixed time and date to travel, which provides ONTC with new business intelligence to improve service levels.

The Station Inn's occupancy rate for this fiscal period was 46 per cent, a 20 per cent decline from the previous year. This is attributed to the decline in ridership on the Polar Bear Express.

ONTC transferred the Niska I vessel and the operation of the Moosonee to Moose Factory Island ferry service to the Owen Sound Transportation Company LTC.

Passenger Numbers:

	2013-2014	**2012-2013**
Polar Bear Express	55,727	62,389
Motor Coach	260,046	240,122
Charter Days	463 days	745 days

2013-2014 in Review

Ontera Telecommunication Services

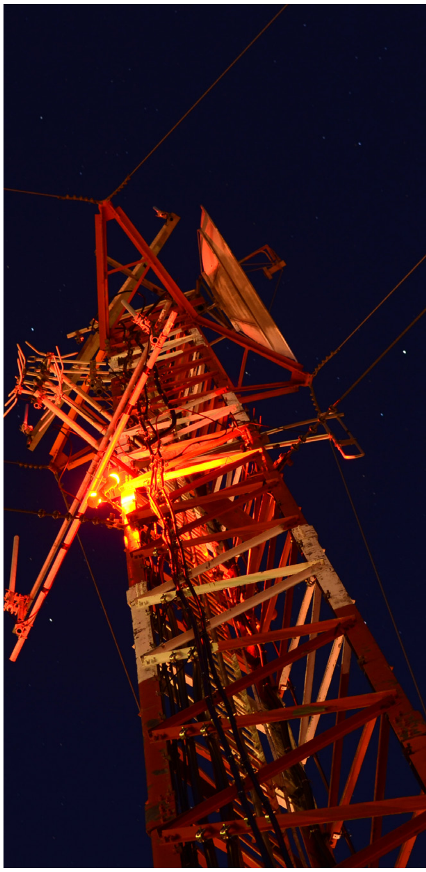
The Minister of Northern Development and Mines announced that Ontera would be the first business line of the ONTC to be divested in August of 2012. Infrastructure Ontario was tasked with the sale of the division. In October 2012, Infrastructure Ontario began a due diligence process in an effort to realize the full market potential of the business line. The sales process continued throughout the 2013-2014 fiscal period and an agreement was reached with Bell Aliant to purchase by the end of March.

Major activity during this period includes updating of the far north microwave radio sites and equipment, a $5.5 million capital investment, which will renew the infrastructure that supports voice services to Fort Albany, Attawapiskat and Kashechewan following completion of services migration to the new system during second quarter 2015.

Ontera acquired materials to reconstruct and place new fibre optic cable between Timmins and New Liskeard. This cable will be installed in the new fiscal year.

Declines in retail voice services such as long distance voice services and legacy data services continued with its prolonged downward revenue trend.

Customer service metrics continued to exceed industry standards with an average of 94 per cent of customer calls being answered within 20 seconds.



2013-2014 in Review

Rail Services

Work continued on the long-term rail renewal and maintenance plan, which was established to create a systematic renewal and maintenance process for Ontario Northland's rail infrastructure. Projects this fiscal included the continued repairs to the Moose River Bridge, as well as a number of other bridge repairs. The plan also included rail and tie renewals across the system. Over $30 million of capital was invested into the Rail division this fiscal year.

Just over 25,500 car loads were shipped during this period, a 25 per cent decline from the previous fiscal

Rail revenues decreased approximately 14 per cent from the prior year. This decline in carloads and carload revenue can be directly linked to the closure of the Agrium Phosphate Mine west of Kapuskasing.

Operating expenses decreased by approximately 4 per cent over the same time period.

ONTC's Mechanical Department completed a number of locomotive and wheel axle repair or renewal contracts for other rail freight carriers. Moving forward, ONTC plans to increase the amount of rail equipment repair for external clients as demand for this niche market continues to grow.

The Polar Bear Express train continued to improve operationally with 98 per cent on time arrivals at either Moosonee or Cochrane over the reporting period.

Transport Canada amended the Transportation of Dangerous Goods Act and Regulations in 2014, and in many instances, ONTC was in compliance or exceeded these standards as the Rail Division follows strict safety protocols and procedures in compliance with Transport Canada guidelines and regulations protecting our employees, customers and the communities we serve.

The Rail Division continued to operate the Christmas Train that visited 10 northern communities during December 2013.

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

	2013-2014	**2012-2013**
Polar Bear Express	98%	95%

2013-2014 in Review

Refurbishment Services

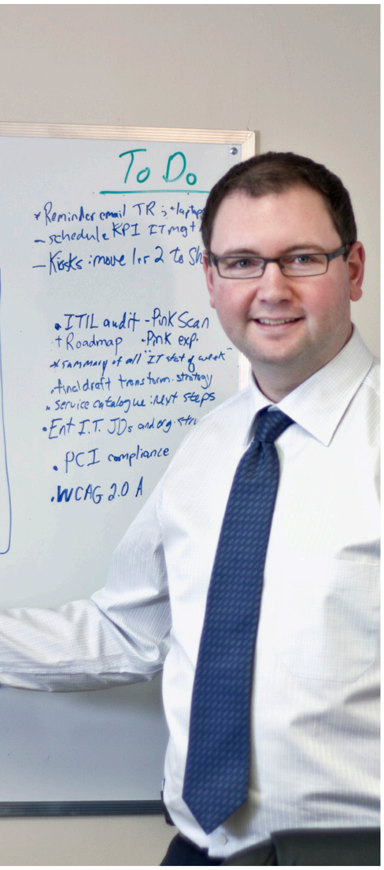
The Refurbishment Division completed the refurbishment contract for Agence métropolitaine de transport of Montreal in 2014. The contract included the painting and refurbishment of 24 coaches.

Five cars out of ten were delivered as part of the Metrolinx/Cad Railway Industries Ltd. 10 car bi-level 5 assignment contract. Delayed delivery of parts and engineering issues pushed back the completion of the project. The contract is due to be completed by the end of the next fiscal year.

Pre-feasibility engineering work was completed for the Polar Bear Express refurbishment project. This $19 million project will include consulation with local communities and the refurbishment of former Northlander cars that will meet the needs of Polar Bear Express passengers. This refurbishment project is estimated to take 4 to 5 years to complete.

One flood-damaged Metrolinx car was received and treatment for mold is scheduled to be completed in the next fiscal year.

Refurbishment revenues increased by approximately 57 per cent from the previous year. The division continues to seek a large year-to-year contract to sustain the division long-term.



2013-2014 in Review

Corporate Services

FACILITIES: Facilities Management worked with Rail's Buildings and Bridges staff to oversee replacement of the North Bay Stores roof. At 555 Oak St., the heating, ventilating and air conditioning system was replaced, and window and roof repairs completed. Facilities Management was reduced from four to two management staff, and support was focused on the North Bay Station, North Bay Bus Garage, 555 Oak Street, 195 Regina, Sudbury Bus Depot and 10 Government Road, Kirkland Lake.

FINANCE: Having entered Stage 1 of the Broader Public Sector Temporary Solvency Funding Relief program in the prior fiscal period, ONTC took steps to ensure the sustainability of the pension plan and attain the savings target. ONTC brought together a diverse group of management and union representatives to review the solvency relief program, the funding of the pension plan and to consider various approaches to achieving the savings target. In the end this group recommended that the best approach was to increase the rate of employee contributions. An amendment to the pension plan was developed and approved by the Commission with the expectation that Lieutenant Governor in Council approval would be obtained in 2014-2015. During this fiscal year Finance continued to search for increased efficiencies within its operations while continuing to provide support to operating divisions.

HUMAN RESOURCES: In this fiscal year - 31 people were hired while 82 left the organization. Services continued to be delivered safely with 51 vacant positions, which resulted in $2.55 million in payroll savings.

INFORMATION TECHNOLOGY SERVICES: ONTC embarked on an ambitious project to optimize and transform corporate business processes and technology components in Finance, Payroll and Human Resources. Together with Passenger Services, Information Technology Services launched the first-ever online ticket sales portal for bus passenger tickets, delivering convenient online sales to passengers and improved planning and reporting tools to ONTC. The Records Management department was moved under Information Technology Services, combining information and records management expertise.

MARKETING AND COMMUNICATIONS: ONTC continued to receive significant media attention with over 1,500 news articles about the organization. A refurbishment video was produced in March 2013 promoting the services of the division. The Marketing and Communications department coordinated 90 translations, and organized corporate events including the Annual Soft Ball Tournament and the Christmas Train events.

PROJECT MANAGEMENT: The department focused on Rail Mechanical operations which dramatically improved process flow, most notably in the North Bay Car Shop and Wheel Shop.

2013-2014 in Review

Ontario Northland in our Communities

Ontario Northland employees continued to significantly contribute to local service clubs, sports clubs and community organizations throughout Northeastern Ontario.

In addition, as a corporate citizen, Ontario Northland coordinated the Christmas Train, This was the third year for this holiday tradition with over 4,000 people in attendance. An event was added in Earlton at the request of the community. Community volunteers and employees successfully worked together to make the holidays brighter throughout the North.

Green Initiatives

The company considers environmental impacts when introducing new services or updating facilities. The following activities are just a few of the operational initiatives that were put into place to lessen environmental impacts:

- Anti idling practices – rail, motor coach and telecom services
- Ultra low sulphur diesel fuel – motor coach services
- Diesel powered generator sites updated to prevent accidental spills - remote microwave sites
- Battery plants renewed to provide efficient backup power
- Building and lighting retrofits to be energy efficient
- Electronics recycling collection programs

Safety

Safety continued to be a priority in 2013-2014 with a focus on safe work practices. The Health and Safety committee continued to meet monthly, proactively promote workplace safety, and focus on education. This focus on safety, combined with the efforts of the Early Return to Work Committee, successfully reducing the number of lost days due to injury by 20 per cent.

Ontario Northland Transportation Commission
Consolidated Financial Statements
For the year ended March 31, 2014

Ontario Northland Transportation Commission
Consolidated Financial Statements

For the year ended March 31, 2014

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 and opinion on whether they are fairly presented in accordance with Canadian public sector accounting standards. The Auditor’s Report which follows outlines the scope of the Auditor’s examination and opinion.

T. Hargreaves
Chair

P. Goulet
President and CEO

North Bay, Ontario
September 12, 2014, except as to notes 1 & 14 which are as of October 1, 2014

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 Ontario Northland Transportation Commission, which comprise the consolidated statement of financial position as at March 31, 2014, 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.

Auditors' 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 consolidated financial position of Ontario Northland Transportation Commission as at March 31, 2014, and the changes in its consolidated net assets, 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 indicate 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 support from the Government of Ontario while completing its transformation plans. These conditions indicate 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
September 12, 2014, except as to notes 1 & 14 which are as of October 1, 2014

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, 2014, with comparative figures for 2013

	2014	2013 (restated)
Assets		
Current		
Cash (Note 4)	$ **2,650**	$ 8,255
Accounts receivable (Net of allowance - $ 1,392; 2013 - $1,597);	**34,090**	29,388
Inventory	**14,223**	16,100
Prepaid expenses	**602**	630
	51,565	54,373
Capital assets (Schedule 1)	**331,740**	318,966
Accrued pension benefit asset (Note 5a)	**40,384**	47,881
	$ **423,689**	$ 421,220
Liabilities and Net Assets		
Current		
Accounts payable and accrued liabilities	**19,454**	25,015
Current portion of long-term debt (Note 7)	**3,789**	4,756
Current portion of deferred revenue	**5,973**	800
	29,216	30,571
Deferred revenue	**552**	621
Deferred capital contributions (Note 6)	**179,038**	148,093
Long-term debt (Note 7)	**18,823**	22,616
Accrued non-pension benefit obligation (Note 5b)	**82,894**	77,621
	310,523	279,522
Net assets		
Unrestricted	**108,042**	136,745
Internally restricted	**5,124**	4,953
	113,166	141,698
Nature of operations (Note 1)		
Contingencies (Note 10) / **Commitments** (Note 11)		
	$ **423,689**	$ 421,220

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.

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

Year ended March 31, 2014, with comparative figures for 2013

	2014	2013
Unrestricted net assets		
Balance, beginning of year (as previously stated)	$ **136,745**	$ 142,297
Correction of a prior period (Note 3)	**-**	(6,700)
Balance, beginning of year (restated)	**136,745**	135,597
(Deficiency) excess of revenues over expenses	**(28,532)**	1,305
Internally restricted - transfer to Reserve for Self Insurance	**(171)**	(157)
Balance, end of year	**$ 108,042**	$ 136,745

	2014	2013
Internally Restricted - Reserve for Self Insurance (Note 9)		
Balance, beginning of year	**$ 4,953**	$ 4,796
Transfers from Unrestricted Net Assets		
Interest earned	**71**	57
Annual premium	**100**	100
	171	157
Balance, end of year	**$ 5,124**	$ 4,953

	2014	2013
Total Net Assets	**$ 113,166**	$ 141,698

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

Ontario Northland Transportation Commission
Consolidated Statement of Operations

(dollars in thousands)

Year ended March 31, 2014, with comparative figures for 2013

	2014	2013 (restated)
Rail Services		
Sales revenue (Note 12)	**$ 44,518**	$ 51,788
Operating expense	**65,682**	68,822
Deficiency of revenue over expenses before the undernoted	**(21,164)**	(17,034)
Northlander Settlement expense (Note 13)	**2,913**	-
Amortization of capital assets	**11,532**	11,143
Employee future benefit expense	**11,198**	8,198
Gain on sale of capital assets	**(332)**	(444)
Interest expense	**190**	359
Deficiency of revenue over expenses	**(46,665)**	(36,290)
Motor Coach Services		
Sales revenue	**10,731**	10,967
Operating expense	**11,611**	11,006
Deficiency of revenue over expenses before the undernoted	**(880)**	(39)
Amortization of capital assets	**300**	351
Employee future benefit expense	**1,222**	903
Loss on sale of capital assets	**22**	482
Interest expense	**91**	94
Deficiency of revenue over expenses	**(2,515)**	(1,869)
Refurbishment		
Sales revenue	**7,477**	4,757
Operating expense	**8,422**	7,770
Deficiency of revenue over expenses before the undernoted	**(945)**	(3,013)
Amortization of capital assets	**86**	85
Employee future benefit expense	**1,491**	1,037
Interest expense	**102**	116
Deficiency of revenue over expenses	**(2,624)**	(4,251)
Marine Services (Moosonee)		
Sales revenue	**-**	180
Operating expense	**45**	503
Deficiency of revenue over expenses before the undernoted	**(45)**	(323)
Loss on transfer of capital assets	**631**	-
Deficiency of revenue over expenses	$ **(676)**	**$** (323)

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

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

Year ended March 31, 2014, with comparative figures for 2013

	2014	2013 (restated)
Development		
Sales revenue	$ **542**	$ 543
Operating expense	**296**	352
Excess of revenue over expenses before the undernoted	**246**	191
Amortization of capital assets	**37**	37
Excess of revenue over expenses	**209**	154
Administration		
Operating expenses	**7,836**	8,147
Amortization of capital assets	**111**	111
Employee future benefit expense	**1,663**	1,273
Interest expense	**11**	16
Gain on sale of capital assets	**-**	(131)
Deficiency of revenue over expenses	**(9,621)**	(9,416)
Total operations before the following items		
Sales revenue	**63,268**	68,235
Operating expense	**93,892**	96,600
Deficiency of revenue over expenses before the following	**(30,624)**	(28,365)
Northlander Settlement expense	**2,913**	-
Amortization of capital assets	**12,066**	11,727
Employee future benefit expense	**15,574**	11,411
Loss (gain) on sale of capital assets	**321**	(93)
Interest expense	**391**	581
Investment income on Reserve for Self Insurance	**(71)**	(57)
Deficiency of revenue over expenses before the following items	**(61,818)**	(51,934)
Discontinued operations (Note 14)	**(2,402)**	(2,321)
Government reimbursement (Note 8)	**29,900**	50,292
Amortization of deferred capital contributions (Note 6)	**5,788**	5,268
Excess (deficiency) of revenue over expenses for the year	**$ (28,532)**	$ 1,305

The accompanying summary of significant accounting policies and 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, 2014, with comparative figures for 2013

	2014	2013 (restated)
Cash provided by (used in)		
Operating activities		
Excess (deficiency) of revenue over expenses for the year	**$ (28,532)**	$ 1,305
Items not affecting cash		
Amortization of capital assets	**17,046**	16,878
Amortization of deferred capital contributions	**(5,788)**	(5,268)
Loss (gain) on disposal of capital assets	**321**	(93)
Employee future benefit expense	**18,455**	13,450
	1,502	26,272
Changes in non-cash working capital balances		
Accounts receivable	**(4,702)**	(6,712)
Inventory	**1,877**	(2,548)
Prepaid expenses	**28**	28
Accounts payable and accrued liabilities	**(5,561)**	514
Deferred revenue	**5,104**	(3,287)
Net pension benefit asset	**(2,898)**	(2,996)
Net non-pension benefit obligation	**(2,787)**	(3,069)
	(7,437)	8,202
Capital activities		
Investment in capital assets	**(34,038)**	(24,543)
Proceeds from sale of capital assets	**194**	93
	(33,844)	(24,450)
Financing activities		
Principal repayment long-term debt	**(4,760)**	(4,476)
Deferred capital contributions	**40,436**	28,973
	35,676	24,497
(Decrease) increase in cash during the year	(**5,605)**	8,249
Cash, beginning of year	**8,255**	6
Cash, end of year	**$ 2,650**	$ 8,255

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

Ontario Northland Transportation Commission
Consolidated Schedule of Capital Assets
Schedule 1
(dollars in thousands)

Year ended March 31, 2014, with comparative figures for 2013

			2014	2013
	Cost	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Rail Services				
Roadway	$ 369,852	$ 140,613	**$ 229,239**	$ 208,869
Buildings	44,723	21,576	**23,147**	22,804
Equipment	79,063	55,157	**23,906**	24,198
Equipment under capital lease	1,022	399	**623**	673
Under construction	3,163	-	**3,163**	8,699
Telecommunications (Ontera) (Note 14)				
Equipment	171,328	132,195	**39,133**	38,460
Buildings	6,751	4,574	**2,177**	2,330
Motor Coach Services				
Coaches	7,810	4,392	**3,418**	1,550
Buildings	2,796	484	**2,312**	2,383
Refurbishment				
Equipment	585	168	**417**	438
Buildings	3,435	622	**2,813**	2,881
Marine Services (Moosonee)				
Vessels	-	-	**-**	4,252
Development				
Land and buildings	2,851	1,459	**1,392**	1,429
	$ 693,379	$ 361,639	**$ 331,740**	$ 318,966

The accompanying summary of significant accounting policies and 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, motor coach and telecommunications primarily in the north-eastern portion of Northern Ontario.

On March 23, 2012, the Province announced its intent to divest the operations of the Commission. A transition board was appointed to oversee continuing operations during the divestment process. Subsequently in May 2013, the Province announced new direction for transformation of the ONTC. In July 2013, the Memorandum of Understanding between the Commission and the Ministry of Northern Development and Mines was revised to reflect a new mandate 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. 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 company 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 Ontera (telecommunications) from Bell Aliant had been accepted (see Note 14 Discontinued Operations). The purchase transaction was finalized on October 1, 2014.

The Commission’s ability to maintain operations is dependent on the continued 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 Canadian Institute of Chartered Accountants ("CICA") Public Sector Accounting Handbook. 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) 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.

Monthly subscriber fees in connection with wireless telecommunications services, internet services, network, local and long distance services are recorded as revenue as the service is provided. Any revenue or cost adjustments, whether positive or negative, in the interconnection and traffic settlement agreements are recognized in the year in which they become known and estimable.

The Commission accounts for provincial and federal reimbursements under the deferral method of accounting as follows:

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

- Externally restricted reimbursements 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 reimbursements 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:

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

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.

2. Significant Accounting Policies - *Employee Future Benefits* (continued)

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 12 years). Past service costs are recognized in the period of plan amendment.

Pension fund assets are valued using current market values.

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 2014 was $15,191 (2013 - $17,853).

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 $ 218 (2013 - gain of $36) arising mainly from rail traffic settlements between Canada and the U.S.A.

2. Significant Accounting Policies (continued)

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.

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 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

Cash include cash on hand, balances with banks, and restricted cash.

3. Correction of a prior period

During the due diligence stage of examining Ontera for possible sale, the nature and extent of employee long term disability liabilities was found to be higher than what had previously been anticipated. The liabilities were actuarially determined and have been added to the ONTC Non-Pension Benefit Plans Obligation. This adjustment has been recorded retroactively through retained earnings and accordingly, the comparative financial statements have been restated as follows:

		2013
Decrease in opening balance Unrestricted Net Assets	**$**	6,700
Decrease in closing balance Unrestricted Net Assets		6,700
Increase in opening balance Accrued Non-Pension Benefit Obligation		6,700
Increase in closing balance Accrued Non-Pension Benefit Obligation		6,700
Increase in operating expenses		1,200
Decrease in excess (deficiency) of revenue over expenses		1,200

(dollars in thousands)

4. Cash

	March 31, 2014	March 31, 2013
Cash (bank overdraft)	$ (2,474)	$ 3,302
Cash related to Reserve for Self Insurance (Note 9)	5,124	4,953
Cash	$ 2,650	$ 8,255

5. 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, 2011. The results of this valuation were extrapolated to December 31, 2013. 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, 2012.

The pension plan's asset target percentage allocation and average asset allocation as at March 31, 2014, by category are as follows:

		Target	**2014**	2013
Equity securities	– Domestic	20% - 30%	**26.6%**	23.6%
	– Foreign	10% - 30%	**25.4%**	19.6%
Debt securities		35% - 55%	**47.6%**	54.0%
Real estate		0% - 15%	**0.2%**	0.9%
Short-term and other		0% - 15%	**0.2%**	1.9%
Total			**100%**	100%

(dollars in thousands)

5. Employee Future Benefits (continued):

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

Pension Plans:

	Pension	SERP	March 31, 2014	March 31, 2013
Accrued benefit obligation	$ (488,302)	$ (2,843)	$ (491,145)	$ (464,550)
Plan assets at fair value	482,966	-	482,966	468,286
Funded status - plan (deficit) surplus	(5,336)	(2,843)	(8,179)	3,736
Unamortized net actuarial loss	47,789	774	48,563	44,145
Accrued benefit asset (liability) net of valuation allowance - end of year	$ 42,453	$ (2,069)	$ 40,384	$ 47,881

	Pension	SERP	March 31, 2014	March 31, 2013
Accrued benefit asset - beginning of year	$ 49,898	$ (2,017)	$ 47,881	$ 52,488
Employee future benefit expense	(10,159)	(236)	(10,395)	(7,603)
Funding contributions	2,714	184	2,898	2,996
Special payments	-	-	-	-
Accrued benefit asset - end of year	$ 42,453	$ (2,069)	$ 40,384	$ 47,881

(dollars in thousands)

5. Employee Future Benefits (continued):

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

Non-Pension Benefit Plans:

	March 31, 2014	March 31 2013
Accrued benefit obligation - beginning of year	**$ (82,093)**	$ (87,452)
Unamortized net actuarial (loss) gain	**(801)**	9,831
Accrued benefit liability - end of year	**$ (82,894)**	$ (77,621)
Accrued benefit liability - beginning of year	**$ (77,621)**	$ (74,843)
Expense - Non-WSIB	**(4,892)**	(4,223)
Expense – Non-WSIB – Long Term Disability	**(2,400)**	(2,100)
Recovery (expense) - WSIB	**(768)**	476
Funding contributions - Non-WSIB	**1,888**	2,169
Funding contributions - Non-WSIB – Long Term Disability	**1,100**	900
Adjustment to match booked position	**(201)**	-
Accrued benefit liability - end of year	**$ (82,894)**	$ (77,621)

Included in the accrued non-pension benefit liability are workers' compensation benefits in the amount of $ 16,502 (2013 - $15,734). This amount has been determined from the most recent available actuarial calculations provided by the Workplace Safety and Insurance Board as at December 31, 2013.

c. Components of Net Periodic Pension Benefit expense

	2014	2013
Current service cost less employee contributions	**$ 6,552**	$ 5,360
Interest on accrued benefit obligation	**27,423**	27,337
Expected return on plan assets	**(27,258)**	(28,026)
Amortization of net actuarial gain (loss)	**3,678**	2,932
	$ 10,395	$ 7,603

(dollars in thousands)

5. Employee Future Benefits (continued):

d. Components of Net Periodic Non-Pension Benefit Expense

	2014	2013
Current service cost	**$ 4,790**	$ 2.962
Interest on accrued benefit obligation	**2,582**	2,561
Amortization of net actuarial losses	**688**	324
	$ 8,060	$ 5,847

e. Weighted Average Assumptions

	2014	2013
Discount rate - pension	**6.00 %**	6.00 %
Discount rate - non pension	**3.94 %**	4.02 %
Discount rate - WSIB	**7.00 %**	7.00 %
Expected long-term rate of return on plan assets	**6.00 %**	6.00 %
Rate of compensation increase		
2013	**2.00%**	2.00%
2014 & thereafter	**3.00%**	3.00%
Average remaining service period (years)	**12**	12
Drug cost increases (grading down to 5% in 2020)	**8.5%**	9.0 %
Medical and hospital cost increases	**5.0%**	5.0%
Dental cost increases	**4.5%**	4.5%
Vision care cost increases	**0%**	0%

(dollars in thousands)

6. Deferred Capital Contributions

Deferred capital contributions represent the unamortized capital reimbursements received from the Minister to fund the acquisition of capital assets. The amortization of deferred capital contributions is recorded as revenue in the consolidated statement of operations at a rate equal to the amortization of the related assets.

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

	2014	2013
Balance - beginning of year	**$ 148,093**	$ 126,630
Contributions from the Province	**40,436**	28,973
Amortization to revenue – Rail Services	**(4,787)**	(4,268)
– Telecommunications (Ontera)	**(1,001)**	(1,001)
Retirements and transfers	**(3,703)**	(2,241)
Balance - end of year	**$ 179,038**	**$** 148,093

7. Long-term Debt

	March 31, 2014	March 31, 2013
Loan from Ontario Financing Authority, bearing interest at 5.22% per annum, repayable in blended monthly payments of $30 for 15 years beginning February 1, 2005	**$ 1,836**	$ 2,099
Loan from Ontario Financing Authority, bearing interest at 5.60% per annum, repayable in blended monthly payments of $156 for 15 years beginning January 1, 2000.	**1,370**	3,110
Loan from Ontario Financing Authority, bearing interest at 6.37% per annum, repayable in blended monthly payments of $109 for 15 years beginning September 1, 1999.	**537**	1,771
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.	**1,829**	1,897
Loan from Bank of Montreal, bearing interest at 5.11% per annum, repayable in blended monthly payments of $64 for 10 years beginning April 30, 2008. Secured by a floating charge on all Ontera assets. (Note 14)	**2,772**	3,380
Loan from Bank of Montreal, bearing interest at 5.95% per annum, repayable in blended weekly payments of $32 for 15 years beginning October 7, 2010. Secured by a floating charge on all Ontera assets. (Note 14)	**14,268**	15,115
	22,612	27,372
Less current portion	**3,789**	4,756
Long-term debt	$ **18,823**	$ 22,616

(dollars in thousands)

7. Long-Term Debt (continued):

Interest on long-term debt was $ 1,426 (2013 - $1,686).

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

2014-2015	$ 3,789
2015-2016	1,988
2016-2017	2,120
2017-2018	2,220
2018-2019	1,559
Thereafter	10,936
	$ 22,612

8. Government Reimbursement

In accordance with a Memorandum of Understanding between the Commission and the Minister, certain operations of the Commission have been designated as non-commercial. The Commission and the Minister have entered into annual contribution agreements which define the amount of compensation which the Minister would provide 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. Due to the shut-down of the Northlander train as at September 30, 2012, no reimbursement (2013 - $1,544) was received from the National Transportation Agency of Canada for the year ended March 31, 2014.

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

	2014	2013
Ministry of Northern Development and Mines:		
Rail - Passenger Service and Moosonee Branch	**$ 18,900**	$ 18,958
Special funding – Cash deficiency and other	**11,000**	29,749
Marine Services (Moosonee)	**-**	41
	29,900	48,748
National Transportation Agency of Canada:		
Current year's operations	**-**	1,544
	$ 29,900	$ 50,292

9. 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 transfers $100 from 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.

10. 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.

11. 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 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. Economic dependence

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

(dollars in thousands)

13. Northlander Settlement Expense

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. This amount has been recognized as an expense of the current fiscal period.

14. 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. 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. No transaction costs associated with the sale of Ontera have been reflected in the current year's financial results. They will be recorded in the fiscal period in which they take place.

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

		2014		2013
Sales revenue	$	**26,761**	**$**	28,408
Operating expense		**20,249**		22,455
Excess of revenue over expenses before the undernoted		**6,512**		5,953
Amortization of capital assets		**4,980**		5,151
Employee future benefit expense		**2,881**		2,039
Interest expense		**1,053**		1,084
Deficiency of revenue over expenses from discontinued operations	$	**(2,402)**	**$**	(2,321)

Asset and liabilities of the Telecommunications (Ontera) Operations at March 31st are as follows:

		2014		2013
Current assets	$	**2,705**	**$**	4,182
Capital assets		**41,310**		40,790
Current liabilities		**(5,225)**		(6,840)
Noncurrent liabilities		**(17,661)**		(19,185)
Deferred capital contributions		**(12,827)**		(8,328)

Cash flows from the Telecommunications (Ontera) Operations are as follows:

		2014		2013
Operating activities	$	**911**	**$**	1,962
Investing activities		**(5,500)**		-
Financing activities		**4,045**		(1,358)

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