Ontario Northland

Ontario Northland Transportation Commission

2010-2011 Annual Report

Ontario Northland Transportation Commission
555 Oak Street East
North Bay, Ontario
P1B 8L3

1.705.472.4500 or 1.800.363.7512
info@ontarionorthland.ca
www.ontarionorthland.ca

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Message from the Chair

2010 was an eventful year at Ontario Northland. While continuing to support our vision and fulfill our mission, the challenges of significant organizational change, effectiveness and improvement were realized and addressed head on.

In May of 2010, the retirement of the President and CEO triggered change within the senior management team. A new President and CEO was appointed as well as new appointments to Chief Operating Officer and Vice President of Refurbishment, Vice President of Passenger Services, and Vice President of Ontera. With such significant movement in leadership, the importance of adhering to the business plan (developed to support Ontario Northland's mandate as outlined in the Memorandum of Understanding with the Ministry of Northern Development, Mines and Forestry) was evident.

In keeping with strategies outlined in the business plan and the new executive focus on transformational change; leadership training for the executive and director level management was delivered, as well as management training to mid-level managers and supervisors. The key goal for all management is increased accountability.

Initiatives to improve operational effectiveness and continuous improvement were undertaken with the introduction of 'lean manufacturing' and its successful implementation in the refurbishment division to gain efficiencies and reduce waste. To lead this initiative and future efforts, an Enterprise Process Improvement position was established reporting to the Chief Operating Officer. The delivery of the 100th refurbished rail car to GO Transit was celebrated in January.

By anticipating and responding to customer needs, our efforts to improve Passenger Services have resulted in increased ridership across both motor coach services and rail passenger services. Services such as wireless internet access on both motor coaches and passenger trains have been favourably received. The new Niska I ferry was delivered in August 2010, to provide service between Moosonee and Moose Factory beginning mid-season 2011.

The Rail freight division and Ontera telecommunication services division have both responded to effectively meet the needs of customers in the slowly recovering economy. Recognizing the challenging economic landscape in which we operate, the mining and forestry sectors, operating efficiencies and reduced expenses were key to continued service delivery.

Successful endeavours with the Mushkegowuk Cree Council of James Bay resulted with an extension of the partnership formed to promote economic development and social impact opportunities for the far North.

While Ontario Northland experienced an operating loss in the 2010-2011 fiscal year, we have seen improvement financially over last year and we expect that the measures put in place to continually streamline, reduce waste and improve processes will have an even more positive influence on future financial results.

Ontario Northland remains committed to ensuring that the people of the North stay connected with each other and the rest of the world through our telecommunication and transportation services. We look forward to building on the foundation of change and improvement that was introduced this past year.

Sincerely,

Ted Hargreaves
Chair, Ontario Northland Transportation Commission

Company Overview

The Ontario Northland Transportation Commission (Ontario Northland), an Agency of the Province of Ontario, was established in 1902 and is a recognized leader in promoting sustainable economic growth by establishing and operating transportation and telecommunication links throughout Northern Ontario.

Our Vision

Connected communities; A prosperous North.

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

Our Mission

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

Our Values

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

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

Our Services

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

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

Commercial services include:

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

Corporate Governance

Ontario Northland is an agency of the Government of Ontario. An agency is a provincial government entity that is not organizationally part of a ministry, and:

- is established by government through a constituting instrument (under or by statute, regulation, or order in council);
- is accountable to a minister for fulfilling its legislative obligations, the management of the resources it uses, and its standards for any services it provides;
- where government makes the majority of appointments; and
- with the authority and responsibility granted by the government to perform an ongoing public function or service.

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

Ontario Northland is also governed by a Memorandum of Understanding (MOU) that was most recently updated in 2009. The purpose of this MOU is to set the accountability relationship between the Ontario Northland Transportation Commission and the Ministry of Northern Development, Mines and Forestry (MNDMF). Specifically, the responsibilities of the Minister, Deputy Minister, Chair of the Ontario Northland Transportation Commission, the Board, and the CEO are outlined within the MOU.

Our Mandate

Our mandate is to provide efficient transportation and telecommunication services in Northern Ontario as directed by the Government of Ontario, through the Minister of Northern Development, Mines and Forestry;

a) To support and promote, through the services delivered by Ontario Northland, Northeastern Ontario economic development, job creation and community sustainability;
b) Through its services, to support, promote and enhance linkages and clustering between communities within the region and between Northeastern Ontario and other regions;
c) To deliver price-competitive transportation and telecommunication services that are safe, reliable and responsive to customers, residents and businesses in Northeastern Ontario; and
d) To deliver services in a financially efficient and effective manner with an objective of improved cost recovery and self-sustainability.

Reporting Structure

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

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

Commission Members Chair

Ted Hargreaves, North Bay

April 27, 2004 to April 26, 2007; April 21, 2007 to April 20, 2009; April 21, 2009 to April 20, 2010; April 21, 2010 to April 20, 2011

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

Commissioners

Carson Fougère, North Bay

July 5, 2004 to July 4, 2007; July 5, 2007 to July 4, 2010; July 5, 2010 – July 4, 2012

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

Mathilde Gravelle Bazinet, North Bay

July 5, 2004 to July 4, 2007; July 5, 2007 to July 4, 2010; July 5, 2010 to July 4, 2012

Mathilde Gravelle Bazinet, a member of the Law Society of Ontario, entered the law profession after a successful 20-year career in the field of Nursing Education and Health Care Administration at the community college and university level within the Provincial and Federal Public Sector. Ms. Bazinet has served on numerous professional committees, boards, and commissions, most recently, served from 2005 to 2009 as the Founding Chair of the North East Local Health Integration Network (LHIN) for the Ministry of Health and Long-Term Care. She holds a B.SC.N.Ed., a M.Ed. and her LL.B. from the University of Ottawa. Ms. Bazinet is the author of several publications in the field of conflict resolution, health care administration, and emergency services. Ms. Bazinet is an active member of the Commission's Pension Committee.

Margaret Hague, Spring Bay

July 5, 2004 to July 4, 2007; July 5, 2007 to July 4, 2010; July 5, 2010 – July 4, 2012

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

Randy Kapashesit, Moose Factory

November 3, 2004 to November 2, 2007; November 3, 2007 to November 2, 2008; November 3, 2008 to November 2, 2010; November 3, 2010 to November 2, 2013

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

Gaetan Micheal Malette, Timmins

Commissioner - November 29, 2010 - November 28, 2013

Gaétan Malette is the Director of Aboriginal Relations at Dumas Contracting Ltd. Prior to that, he worked for thirty-five years in the resource industry. Mr. Malette has held executive positions with forestry leaders Tembec, E.B. Eddy and Domtar. He has extensive experience in operations management, negotiations, strategic planning and building relationships with Northern communities, interest groups and First Nations. Mr. Malette is an active member of the Audit and Finance Committee.

Jean-Pierre Ouellette, Cochrane

October 1, 2008 to September 30, 2011

Mr. Ouellette is the Chief Administrative Officer and Clerk for the Town of Cochrane and started his career in municipal government as a Councillor for the former Township of Glackmeyer. He is a Business graduate of Canadore College in North Bay and has recently completed his accreditation for the designation of Certified Municipal Officer. He is a member of the Marketing and Communications Committee for the Association of Municipal Managers, Clerks and Treasurers of Ontario. He has also served on numerous other Boards and Committees including: the Ontario Tourism Marketing Partnership – Outdoor Products Committee as Vice-Chair; the Ontario Trillium Foundation – Local Grant Review Team; the Ontario Federation of Snowmobile Clubs as Treasurer and Governor; was the founding President of the Polar Bear Riders Snowmobile Club; and was also a member of the MNR Regional Advisory Committee. Mr. Ouellette is an active member of the Audit and Finance Committee and of the Pension Committee.

David Plourde, Kapuskasing

July 5, 2004 to July 4, 2007; July 5, 2007 to July 4, 2010; July 5, 2010 to July 4, 2012

Mr. Plourde is a self-employed owner/operator of an upholstery, furniture repair and marine fabricating business. He has served on the Kapuskasing Council for the last sixteen years and currently is the Recreation and Culture Department Chair and Protective Services Department Member. He is also Chair of the Special Events Committee, the Pool Construction Committee, is a Member of the Kapuskasing Public Library Board and the Lumberjack Heritage Festival des bucherons Committee. Mr. Plourde is also President of the Agrium AAA Flyers midget hockey club and Vice Chair of the Northern Corridor Children's Foundation. Mr. Plourde is currently Chair of the Commission's Audit and Finance Committee and an active member of the Executive and Governance Committee and the Human Resources/Safety, Health and Environmental Affairs Committee.

Donavon Porter, Haileybury

August 11, 2004 to August 10, 2007; August 11, 2007 to August 10, 2010; August 11, 2010 to August 10, 2012

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

Commission Committees

The Commission has four standing committees:

- **Audit and Finance Committee**

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

  Chair: David Plourde
  Members: Ted Hargreaves, Jean-Pierre Ouellette, Gaetan Malette

- **Executive and Governance Committee**

  The Executive and Governance Committee has the authority to provide policy assistance and make recommendations, on behalf of the Commission, ensuring that the Commission is comprised of suitable members, including succession planning, proposing new commission candidates, making recommendations with respect to remuneration, and leading governance initiatives.

  Chair: Ted Hargreaves
  Members: Carson Fougère, Margaret Hague, David Plourde

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

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

  Chair: Margaret Hague
  Members: Randy Kapashesit, David Plourde, Donavon Porter

- **Pension Committee**

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

  Chair: Carson Fougère
  Members: Mathilde Bazinet, Jean-Pierre Ouellette, Donavon Porter

Principal Officers

Steve Carmichael	-	President and Chief Executive Officer – until May 2010
Paul Goulet	-	President and Chief Executive Officer – appointed July 2010
Corina Moore	-	Chief Operating Officer and Vice President Refurbishment – appointed May 2010
Amedeo Bernardi	-	Vice President and General Manager of Ontera – appointed May 2010
Kevin Donnelly	-	Vice President of Finance and Administration
Randy Evers	-	Vice President of Rail
Scott Hancock	-	Vice President of Passenger Services – appointed September 2010
Russ Thompson	-	Counsel

Employees

Ontario Northland employs more than 1,000 individuals, who live and work in Northern Ontario and Northwestern Quebec.

Finance and Administration

The Corporate Services Division and the Office of the Chief Operating Officer provide centralized finance and administration services and support to the Company.

Corporate Services

The Corporate Services Division is comprised of the following Departments:

- The Executive Office
- Finance
- Planning and Risk Management
- Legal

Office of the Chief Operating Officer

The Office of the Chief Operating Officer, provides dual functionality by encompassing both operational effectiveness as well as some of Ontario Northland's back office support departments.

The Office of the COO is comprised of the following departments:

- Communications (Marketing and Public Relations)
- Facilities Management
- Human Resources
- Information Technology
- Project Management and Process Improvement

Accomplishments

- **Long Term Sustainability Plan**

  In 2010, the Office of the Chief Operating Officer initiated several recommendations outlined in the Long Term Sustainability Plan (LTSP) including the implementation, in the Refurbishment division, of lean manufacturing, a process improvement methodology designed to increase throughput and eliminate waste in manufacturing and production. Early indicators show this to be a very successful beginning to a key component in Ontario Northland's transformation.

  The LTSP, requested by MNDMF, was undertaken in 2009. The plan outlines asset renewal costs based on status quo business operations over a 15 year period commencing in 2009. The LTSP also described the need for important changes within Ontario Northland, and outlined plans for an improved organizational structure.

- **Development of Key Performance Indicators**

  Accurately defined quantifiable performance measurements were developed across the enterprise. Baselines were established to enable the comparison of current performance levels to historical data as well as industry benchmarks. This allows for setting clear targets that are easily understood and accomplished through specific action. It is also used to identify potential areas for continuous process improvement initiatives as well as the ability to measure the results of success.

- **Resumption of Pension Contributions**

  Arrangements for the resumption of employer and employee contributions to the Ontario Northland Transportation Commission Contributory Pension Plan were implemented.

- **Partnership with Mushkegowuk Council**

  A partnership with the Mushkegowuk Council was extended in 2010. The partnering considers a variety of joint initiatives that could benefit both parties and present strong economic development and social impact opportunities for the far North such as: employment, service improvement, potential opportunities and development of a deep water port facility in the vicinity of Moosonee, tourism, and transportation infrastructure.

- **Facilities Management Efficiencies**

  Facilities Management provide support services to the traditional corporate locations and to Passenger Services locations and manage service requests from Rail Services and Ontera on a case by case basis. A program was introduced in 2010 to establish baselines and analyze building performance on a go forward basis.

  The group has made great strides in energy management initiatives by concentrating on projects having less than a one year payback. Annual savings have been realized as a result of 22 small project initiatives, such as lighting retrofits, having been completed from North Bay to Moosonee.

- **Human Resources**

  With management's increased focus on accountability and transparency, results show adherence to policies and collective agreements, monitored through consistent performance indicators. To support this focus, an expert third party was contracted to work with senior management towards the goal of creating a high performing culture in the organization. Through interviews with senior leadership and conducting a values survey, a customized leadership program for the senior team was delivered which was integrated with management training for middle managers.

  In 2010, the Human Resources team facilitated a total of 15,660 hours of training for employees, an average of 16.61 hours of training per employee.

- **Health and Safety**

  Ontario Northland experienced 49 lost time injuries in 2010 compared to 44 lost time injuries in 2009. Despite this, the number of days lost due to these injuries was reduced by 15% when compared to the previous year. Moving forward, it is imperative for the entire organization to continue to focus on prevention efforts and, if required and wherever possible, offer modified work to simultaneously reduce the number of injuries to the workforce and time away from work.

- **Enterprise Information Technology**

  An updated and comprehensive Information Technology (I.T.) policy was developed, published and distributed throughout the organization. Positive outcomes from this new policy include awareness of inappropriate use, improved security, accountability and integrity of data, systems and resources across the entire enterprise.

  Internet access and Wi-Fi hotspots have been added to Ontario Northland station, motor coach and train operations providing passengers with Internet and mobile (Wi-Fi) access along most routes.

  The Enterprise I.T. disaster recovery plan was renewed. The plan includes the policies, processes and procedures for recovery of key business and mission critical I.T. systems and resources across the enterprise in the event of a disaster.

  Server room and data centre resources were consolidated to a primary location. This enabled Enterprise I.T. to leverage optimal space, energy, cooling and accessibility requirements for critical infrastructure and the services it operates.

- **Project Management and Process Improvement**

  The Ontera Project Management Office was expanded to take on Enterprise wide projects and Process Improvement Initiatives. The team transitioned from reporting to the Vice President and General Manager of Ontera to the Chief Operating Officer of Ontario Northland. The group delivers, manages and measures organizational improvement programs and continuously identifies and proposes solutions that will produce efficiencies in processes and standardized activities. This highly skilled team consists of credentialed Project Management Professionals and certified Lean Six Sigma Greenbelts with degrees and diplomas in Business Administration and Information Technology.

Challenges

- **Cash Flow Concerns**

  Ontario Northland continued to face in 2010-2011 significant cash flow challenges resulting in the restriction of capital and operating spending.

- **Pension Funding**

  The completion of a triennial valuation and the resumption of contributions to the pension plan further exacerbated the cash flow issue faced by the Commission which has led to an analysis and further review of approaches to deal with the increase in required contributions.

Ontera (Telecommunications Services)

Historically, Ontera has provided long distance services for communities along the Highway 11 corridor and provided local telephone service to the communities of Moosonee, Moose Factory, Temagami, Marten River and a portion of Iroquois Falls. Ontera has expanded its range of telecommunications service offerings to include IP-based data services, Internet, competitive local telephone services and fixed and mobile wireless services to numerous locations including Hearst, Timmins, North Bay, Sudbury, Sault Ste. Marie and Moosonee-Moose Factory. Coupled with its regional relationships and participation in large telecommunications carrier contracts, Ontera has expanded its service offering to provide next generation network services.

Ontera's geographical coverage area consists of over 200,000 square kilometres of the province of Ontario and portions of the province of Quebec, with a population of approximately 550,000 people. Excluding the four largest communities Ontera provides service to, the company reaches an average of one person per square kilometre.

Accomplishments

- **Investing in the Core Network**

  Ontera has been building upon its original investment in fibre optic network infrastructure with new, carrier class, quality-of-service capabilities. These enhancements will benefit future projects and all of Ontera's territory as it continues to be the digital gateway to the North delivering services on par with those available in the largest urban centres in Canada.

- **Digital Mobile Service in Moosonee and Moose Factory**

  The digital cellular service upgrade in Moosonee and Moose Factory has enabled residents and businesses to stay connected and be competitive in a global environment providing access to services such as texting, mobile Internet and prepaid calling plans.

- **Internal Structure and Processes**

  Ontera strengthened its internal structure and processes in order to continually improve on business operations. Ontera continues to follow methodologies prescribed in the Project Management Body of Knowledge (PMBoK) for all large projects whether ensuing from internal network improvements or as a result of customer-driven projects.

- **Profitability**

  To ensure Ontera's long term success and viability, it is essential that it regains and steadily increases profitability. Over the past three fiscal years Ontera has delivered positive financial gains. Major project activity is progressively matching to ongoing, responsive cost containment measures and internal transformation activities focused on achieving a greater share of carrier and wholesale revenues. This has resulted in profitability as measured on a net earnings basis being achieved in fiscal year 2011, prior to non-cash adjustments.

Challenges

- **Aging Infrastructure**

  The telecommunications industry is quickly evolving and new technologies are emerging every day. Much of Ontera's infrastructure, particularly as it relates to buildings, local exchange cable facilities, original fibre optic routes between North Bay and Timmins and Operations Support Systems, is in need of upgrading.

- **Technology Substitution**

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

- **Economic Conditions**

  A sustained downturn in the economy could prompt residential and business customers to defer purchases of new services, reduce use of existing services, or discontinue services through use of lower priced alternatives. Combined with the systemic risk associated with the resource-based economy of Northern Ontario, Ontera may face reduced demand for products and services.

- **Financing Options**

  Ontera has a continual need to re-invest in its infrastructure and seize on new business opportunities when they present themselves. The current model for obtaining sources of funding for initiatives such as these results in long lead times with approvals being required at numerous levels within Ministry and Government departments. To the extent that third party financiers are involved, long lead times and multiple approvals can complicate negotiations leading to the provision of funds. The presence of these delays can result in the delay or foregoing of improvements in operations and resultant cash flow that can be utilized for the betterment of the entire organization.

Passenger Services

Passenger Services operates the trains, motor coaches, hotel and ferries that are most readily identified as Ontario Northland by the citizens of Northern Ontario. The essential daily services are delivered through the commitment of a dedicated team that works in eleven northern Ontario communities.

Motor Coach Services

The Motor Coach Services Department maintains and operates a fleet of 25 highway motor coaches that provide scheduled service between Hearst and Toronto, along the Highway 11 corridor which passes through Cochrane and North Bay, and along the Highway 69 corridor, which passes through Timmins and Sudbury. This scheduled service is an economical, safe and reliable way to travel to and from Northeastern Ontario.
Charter and tour services are also offered for groups travelling throughout Canada, along with Bus Parcel Express (BPX) services. BPX is an expedited shipping option which offers station-to-station delivery of envelopes and parcels, often on the same day. The transportation of these parcels is handled through regular scheduled motor coach service routes, with connections across the continent offered through partnerships with other carriers.

Station Inn Hotel

A 23 modern room hotel provides convenience for travelers making connections or enjoying Northern hospitality.

Moosonee to Moose Factory Ferry

In conjunction with community partners, Ontario Northland provides seasonal vehicle and freight transportation between these two communities.

Rail Passenger Services

The Rail Passenger Services Department is responsible for the operation of three passenger trains:

- The Northlander passenger train service between Cochrane and Toronto, with connections to Hearst, Kapuskasing, Smooth Rock Falls, Iroquois Falls and Timmins. The train operates six days per week (Sunday to Friday).
- The Polar Bear Express passenger train service between Cochrane and Moosonee operates five days a week (Monday to Friday) in the fall, winter and spring, and six days a week (Sunday to Friday) during the summer.
- The Dream Catcher Express is an excursion train showcasing the natural fall colours between North Bay and Temagami.

The Polar Bear Express and Northlander are operated as non-commercial (provincially-mandated and subsidized) services. The Northlander also receives a federal subsidy.

Accomplishments

- **More Than 321,000 Passengers**

  In 2010-2011, more than 321,000 passengers travelled aboard either one of Ontario Northland's 25 highway motor coaches or on one of the three passenger trains.

- **Growth in Demand for Scheduled Services**

  All services experienced increased ridership through efforts to improve the passenger experience and simplified fares. This represents growth of 9% over the previous fiscal year.

- **Internet Connectivity:**

  All motor coaches, Northlander trains and stations have been upgraded to include free wireless access.

- **New Ferry in Moosonee**

  In August 2010, the NISKA I ferry was delivered. It will be commissioned in the summer of 2011 to expand service in the area.

- **Station Inn Enhancements**

  To ensure the comfort of guests, the amenities in the rooms were, and continue to be, upgraded to provide conveniences expected from travelers.

- **On-Board Food Services**

  A menu presented in Cree was added to the Polar Bear Express. Growth in food services was experienced in line with the increased ridership.

- **Defibrillator Installed on Trains**

  For the safety and welfare of passengers, portable defibrillators were added on trains in highly visible and accessible areas.

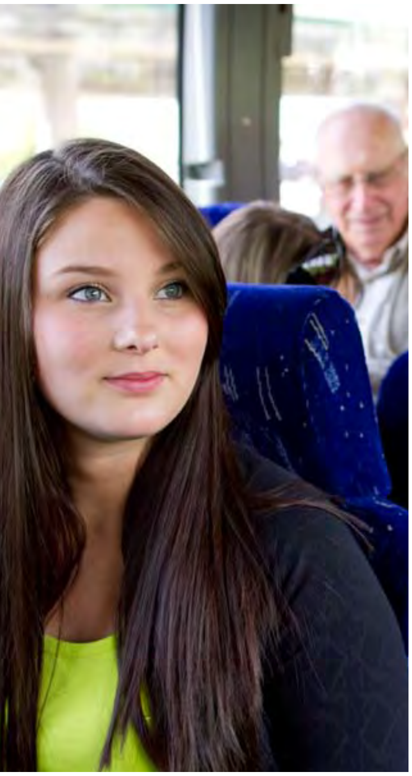
- **On-Time Performance**

  Providing a reliable schedule for travelers continues to be a strength of Motor Coach Services. Despite the challenges of weather and traffic, Ontario Northland is frequently recognized by riders for the exceptional levels of service that are provided on a daily basis. Ontario Northland's passenger trains have demonstrated to the public that they are a dependable option and that is reflected in double digit growth in ridership year over year.

Challenges

- **Rail Passenger Equipment**

  The passenger rail equipment is ageing. This equipment requires refurbishment/replacement to maintain the comfort level of passengers, enhance accessibility and meet minimum service expectations of travelers.



- **Service to Rural Areas in Northern Ontario**

  Ontario Northland serves a network of small communities in Northeastern Ontario with low population densities. Creative work with community partners to find ways to grow ridership on these essential links for these small communities is ongoing.

- **Undersized Motor Coach Fleet**

  Ontario Northland currently operate 25 coaches, this fleet size means that this equipment operates at a level of usage twice the industry average and creates incredible vulnerability for downtime from regular maintenance let alone major repairs. New reliable clean equipment has been identified in many customer surveys across North America as a critical component in customer satisfaction and motivation to take a 'bus'.

- **Information Systems**

  Passenger Services is in need of improved Information Technology infrastructure to help drive process improvement, support best practices and enable improved performance measurement. Investment in improved systems for sales and ticketing, reservations, parcel tracking, inventory and maintenance are required to improve customer service and achieve efficiencies.

Rail Services

Ontario Northland's Rail Services Division has a fleet of 26 locomotives and provides both passenger and freight train service. Ontario Northland operates a 700 mile rail system which spans from Moosonee in the north to North Bay in the south, from Calstock (just west of Hearst) in the west to Rouyn-Noranda, Quebec in the east. This system encompasses more than 2.5 million railway ties, 602 crossings, 90 railway bridges, underpasses and overpasses, 2,247 culverts and 115 buildings.

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

All freight operations between Cochrane and North Bay are commercial in nature, while the Northlander passenger train and all operations between Cochrane and Moosonee are non-commercial (provincially-mandated) and receive provincial government funding.

Passenger Trains

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

Freight Services

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

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

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

Accomplishments

- **Supporting Northern Ontario Businesses**

  Some of the region's largest employers are dependent on rail freight operations. The majority of the freight carried each year has destination points well beyond Ontario Northland's rail system.

As stated in the 2009 Economic and Social Impact Study conducted by HDR Corporation, in association with Dr. Bakhtiar Moazzami:

> Specific benefits of rail freight transportation include:
>
> - Access to more markets.
> - Possibility to remain competitive in more markets with reductions in direct costs and rationalization of logistics and plan operations.
> - A large share of employment in Northeastern Ontario is in resources based industries and could be at risk of downsizing and layoffs should Ontario Northland rail freight services not be available or should they be substantially reduced

- **On-Time Performance**

  The on-time performance of passenger trains improved significantly this fiscal year, as the result of a variety of factors and efforts. Ongoing investment in track infrastructure has resulted in fewer slow orders for all passenger trains and improved relations with CN have resulted in fewer delays to the Northlander specifically.

- **Investment in Rail Infrastructure**

  Each year, investment in rail infrastructure is made to ensure its safety and integrity. In the current fiscal year, Ontario Northland invested: $1.0 million for 9.2 miles of new and relay rail; $6.0 million for 51,000 new railway ties; and $2.9 million in surfacing, installing anchors and upgrading joints, amongst other projects. In addition, focus on bridges and culverts is continued.

- **Moose River Bridge**

  Over the last three years, significant investment was made to upgrade the Moose River Bridge as part of a multi-year project to ensure the safety of this structure well into the future. This bridge is located on the Island Falls subdivision (the track between Cochrane and Moosonee). The bridge, which is 1,500' long, has been and continues to be inspected according to rigid policies, which have been designed with safety in mind and which require regular inspections to be performed by qualified bridge inspection personnel.

- **Apprenticeship Opportunities**

  Skilled trades-people are essential to the success of Ontario Northland. The value of apprenticeship programs is recognized and Ontario Northland regularly works with the Ministry of Training Colleges and Universities (MTCU), along with community organizations, to promote apprenticeships and the skilled trades. Ontario Northland, which has offered apprenticeship training opportunities for more than 50 years, currently employs 38 apprentices who work in North Bay, Cochrane and Hearst.

- **Rail Safety**

  Rail Services continued to work with Operation Lifesaver, a national public education program sponsored by the Railway Association of Canada (RAC) and Transport Canada, which works in cooperation with various other stakeholders to create safety-conscious attitudes toward railways with a goal of fewer collisions, fatalities and injuries. Presentations were made at schools and to emergency services personnel, public safety advertising campaigns were initiated throughout the region and mock incidents were held to better prepare both emergency services and personnel in the event of an emergency.

Challenges

- **Challenging Northeastern Ontario Economy**

  The industrial landscape of Northeastern Ontario provides for a limited number of significant rail freight clients for Ontario Northland and therefore, Ontario Northland is highly susceptible to the booms and slumps of customers, who are predominantly engaged in resource extraction industries. In addition, there are few opportunities to expand the customer base.

- **Downturn in Forestry and Mining Sectors**

  The economic downturn in the forestry and mining sectors has resulted in a considerable reduction in rail freight traffic. Several forestry-based clients have either terminated, suspended or greatly reduced operations within their mills, which has negatively affected freight tonnage. This haulage reduction, along with reductions in the transportation of mining-related products, has resulted in a substantial decline in revenues.

- **Fuel Costs**

  Fuel costs significantly affect the bottom line and represent a significant portion of growing operating expenses. Although an ancillary fuel charge is applied to rates in order to offset these increases, Ontario Northland is cognizant that such fees may result in the possible curtailment of some freight shipments.

- **Capital Investment Requirements**

  Lower revenues along with rising operational costs make it increasingly more challenging to internally finance key capital investments. Although Ontario Northland remains focused on cost containment, the financing of some infrastructure investments is required.

- **Equipment**

  The Rail Division continues to be challenged in maintaining ageing equipment. The Long Term Sustainability Plan addresses the requirements for the refurbishment and/or replacement of both conventional and unilevel passenger equipment and of freight equipment. In addition, the Long Term Sustainability Plan addresses the renewal of locomotives and auxiliary power units.

Refurbishment Services

Ontario Northland offers refurbishment services to the passenger and freight car industry. This division boasts highly-skilled and experienced personnel, as well as outstanding resources and facilities that include a 61,050 ft^2 car shop and a state-of-the-art paint facility. In addition, Ontario Northland has a proven track record for an exceptional level of quality of workmanship.

Capabilities span from the complete disassembly of cars, to rebuilding them from the frame up. Ontario Northland has expertise in upgrading both electrical and mechanical systems, completing truck overhauls, and also offers interior design and layout services.

Accomplishments

- **100 Cars Successfully Delivered**

  In January 2011, Ontario Northland celebrated the delivery of 100 completely refurbished commuter cars to GO Transit. More than 90% of the current contract to refurbish 121 GO Transit commuter cars is complete. The final car is expected to be delivered in the fall of 2011.

- **Introduction of Lean Manufacturing**

  The Refurbishment Division implemented Lean Manufacturing, which is a Japanese process management philosophy that considers the expenditure of resources for any goal other than the creation of value for the end customer to be wasteful. This is achieved by focusing on three key elements: eliminating waste; ensuring quality; and embracing employee involvement.

  This initiative has proven results as seen with an enhanced quality product and a reduction in labour hours on a per car basis by 7%.

- **Profitability**

  Lean manufacturing, cost containment initiatives and leadership training has lead to a steady increase towards profitability. Year end results are better than budget and operating income is above breakeven, prior to the inclusion of non cash expense items.

Challenges

Refurbishment Market

The division has been focused on refurbishing GO Transit passenger cars to fulfill the requirements of the current contract as well as securing the next GO Transit contract. Future plans include securing additional contracts within North America, but sales cycles are long within this market, and dedicated sales resources are needed to actively pursue these opportunities.

Financial Overview

ONTC sustained a loss for the year ended March 31, 2011 in the amount of $10.8 million, down from the $25.8 million loss experienced in the preceding fiscal period.

Total revenues increased by approximately $15 million year over year. Declines in Rail Services commercial rail revenue of $1.7 million were offset by an increase in government reimbursement of $15.6 million. A marginal decline in revenues in Ontera coupled with a $1.5 million increase in Refurbishment revenues and slight increases in Motor Coach, Moosonee Ferry and Rental Properties made up the balance of the year over year increase. Rail revenues declined as a result of continued weak demand in the forestry and mining sectors along with the closure of a major customer's facilities. Refurbishment has steadily increased production levels over prior years and Motor Coach revenues have begun to increase after years of decline in demand for transportation services. Ontera revenues declined slightly with strength in network services and customer solutions offsetting weakness in voice and carrier service products.

Total operating expenses increased by $3.6 million over the prior year with Rail Services costs accounting for most of the increase. Increases in fuel costs accounted for over half of the increase from the prior year. Declines in Ontera expenses were offset by slight increases in Refurbishment and Motor Coach as expenses tracked higher with increased activity in these areas. Operating expenses in the other operating division are relatively minor and overall remained relatively constant.

Non-operating expenses declined year over year by $3.6 million with the absence of certain onetime items that were experienced in the prior fiscal period. Pension accounting expenses increased by approximately $2 million primarily due to an increased WSIB liability reported during the year. There was an asset impairment recorded in the current period of $1.3 million that was attributable to Ontera.

On the balance sheet, total assets remained relatively constant with the major increase in property, plant and equipment being accompanied by limited year over year movement in the balances of all other assets. Total liabilities increased $21.8 million. Increases in deferred contributions related to property, plant and equipment and the accrued non pension benefit obligation impacted by the WSIB liability were offset by a decline in long term debt. The decline in retained earnings was a result of the loss from operations during the fiscal period.

Kevin Donnelly
Vice President of Finance and Administration

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 generally accepted accounting principles. 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 through its Audit and Finance Committee is responsible for ensuring that management fulfils its responsibilities for internal control and financial reporting. The Audit and Finance Committee is comprised of members of the Commission who meet regularly with management and external auditors to satisfy itself that each group has met its responsibilities. These consolidated financial statements have been reviewed by the Audit and Finance Committee and have been 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 generally accepted accounting principles. 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
June 28, 2011

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, Mines and Forestry

I have audited the accompanying consolidated financial statements of the Ontario Northland Transportation Commission, which comprise the consolidated balance sheet as at March 31, 2011, and the consolidated statements of equity, 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 generally accepted accounting principles, 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 opinion.

Opinion

In my opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Ontario Northland Transportation Commission as at March 31, 2011 and the consolidated results of its operations, and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying my opinion, I draw attention to Note 1 in the consolidated financial statements which indicates that Ontario Northland Tranportation Commission has experienced continued losses. Management of Ontario Northland Transportation Commission is projecting further losses in 2012 and a substantial cash flow deficiency which will exceed its available lines of credit. These conditions, along with other matters as set forth in note 1, indicate the existence of a material uncertainty in that the Commission's ability to continue as a going concern is dependent on the continued financial support of the Ontario government.

Toronto, Ontario
June 28, 2011

Jim McCarter, FCA
Auditor General
Licencsed Public Accountant

Box 105, 15th Floor
20 Dundas Street West
Toronto, Ontario
M5G 2C2
416-327-2381
fax 416-327-9862
tty 416-327-6123

B.P. 105, 15e étage
20, rue Dundas ouest
Toronto (Ontario)
M5G 2C2
416-327-2381
télécopieur 416-327-9862
ats 416-327-6123

www.auditor.on.ca

Ontario Northland Transportation Commission
Consolidated Balance Sheet *(dollars in thousands)*

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

	March 31, 2011	March 31, 2010
Assets		
Current		
Cash (Note 3)	**$ 6,823**	$ 4,823
Accounts receivable		
(Net of allowance – $3,684; 2010 – $3,677)	**20,579**	18,468
Inventory	**16,376**	18,319
Prepaid expenses	**983**	1,348
	44,761	42,958
Property, plant and equipment (Schedule 1)	**307,351**	297,381
Accrued pension benefit asset (Note 4a)	**57,890**	58,650
	$ 410,002	$398,989
Liabilities and Province of Ontario Equity		
Current		
Operating lines of credit (Note 5)	**$ 12,300**	$ 12,925
Accounts payable and accrued liabilities	**31,236**	29,383
Current portion of long-term debt	**4,241**	4,383
Current portion of capital lease obligation	**24**	11
Current portion of deferred revenue	**322**	616
	48,123	47,318
Deferred revenue	**759**	828
Deferred contributions related to property, plant and equipment (Note 6)	**108,581**	89,078
Long-term debt (Note 7)	**31,879**	34,369
Capital lease obligation	**-**	24
Accrued non-pension benefit obligation (Note 4b)	**68,334**	64,232
	257,676	235,849
Equity		
Retained earnings	**147,688**	158,645
Reserve for self insurance	**4,638**	4,495
	152,326	163,140
Nature of Operations (Note 1)		
Contingencies (Note 12) **/ Commitments** (Note 13)		
	$ 410,002	$ 398,989

Approved on behalf of the Commission:

Chair

President and CEO

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

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

	March 31, 2011	March 31, 2010
Retained Earnings		
Balance, beginning of year	**158,645**	184,413
Net loss for the year	**(10,814)**	(25,761)
Net transfer to Reserve for Self Insurance	**(143)**	(7)
Balance, end of year	**$ 147,688**	$158,645

Reserve for Self Insurance (Note 9)		
Balance, beginning of year	**4,495**	4,488
Transfers (to) from Retained Earnings		
Interest earned	**43**	23
Annual premium	**100**	100
Claims	**-**	(116)
	143	7
Balance, end of year	**$ 4,638**	$ 4,495

Total Retained Earnings and Reserve for Self Insurance	**$ 152,326**	$163,140

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

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

For the year ended March 31	2011	2010
Revenues (Schedule 2)	**$ 160,072**	$ 144,924
Expenses (Schedule 2)	**137,416**	133,759
Income from operations, before other operational revenues and expenses	**22,656**	11,165
Other operational revenues and expenses		
Amortization of property, plant and equipment (Schedule 2)	**15,363**	14,673
Amortization of deferred contributions related to property, plant and equipment (Schedule 2)	**(3,063)**	(2,321)
Pension expense (Schedule 2)	**18,547**	16,415
Write down of intangible assets	**-**	4,039
Sales tax assessment	**-**	1,556
Interest expense (Schedule 2)	**1,871**	2,063
Impairment of property, plant and equipment (Schedule 2)	**1,322**	-
Loss (gain) on sale of property, plant and equipment (Schedule 2)	**(518)**	413
Loss from operations before the following items	**$ (10,866)**	$ (25,673)
Investment and other income	**(9)**	(5)
Investment income on Reserve for Self Insurance	**(43)**	(23)
Claims on Reserve for Self Insurance	**-**	116
Net loss for the year	**$ (10,814)**	$ (25,761)

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

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

For the year ended March 31	2011	2010
Cash provided by (used in)		
Operating activities		
Net loss for the year	**$ (10,814)**	$ (25,761)
Items not affecting cash		
Amortization of property, plant and equipment	**15,363**	14,673
Amortization of deferred contributions related to property, plant and equipment	**(3,063)**	(2,321)
Loss (gain) on disposal of property, plant and equipment	**(518)**	413
Impairment of property, plant and equipment	**1,322**	-
Write-down of intangible assets	**-**	4,039
Amortization of intangible assets	-	545
Pension expense	**18,547**	16,415
	20,837	8,003
Changes in non-cash working capital balances		
Accounts receivable	**(2,111)**	(1,312)
Inventory	**1,943**	(695)
Prepaid expenses	**365**	(184)
Accounts payable and accrued liabilities	**1,853**	818
Deferred revenue	**(363)**	(259)
Net pension benefit obligation	**(11,725)**	(148)
Net non-pension benefit obligation	**(1,960)**	(2,031)
	8,839	4,192
Investing activities		
Investment in property, plant and equipment	**(26,655)**	(32,935)
Proceeds from sale of property, plant and equipment	**518**	739
	(26,137)	(32,196)
Financing activities		
Operating lines of credit	**(625)**	1,055
Long-term debt	**(2,632)**	(226)
Capital lease obligations	**(11)**	(72)
Deferred contributions related to property, plant and equipment	**22,566**	24,599
	19,298	25,356
Change in cash during the year	**2,000**	(2,648)
Cash, beginning of year	**4,823**	7,471
Cash, end of year	**$ 6,823**	$ 4,823
Supplemental disclosure of cash flow information:		
Interest paid and included in net loss for the year	**$ 1,871**	$ 2,063

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 Property, Plant and Equipment Schedule 1 *(dollars in thousands)*

For the year ended March 31	Cost	Accumulated Amortization	2011 Net Book Value	2010 Net Book Value
Rail Services				
Roadway	$ 305,130	$ 119,592	**$ 185,538**	$ 161,643
Buildings	43,217	19,086	**24,131**	24,036
Equipment	80,538	50,335	**30,203**	27,388
Equipment under capital lease	1,022	249	**773**	824
Under construction	3,871	-	**3,871**	17,035
Telecommunications (Ontera)				
Equipment	152,490	117,883	**34,607**	38,720
Buildings	6,460	4,143	**2,317**	2,490
Under construction	11,699	-	**11,699**	11,481
Motor Coach Services				
Coaches	8,589	5,884	**2,705**	3,141
Buildings	2,796	271	**2,525**	2,595
Refurbishment				
Equipment	585	105	**480**	500
Buildings	3,435	416	**3,019**	3,061
Marine Services (Moosonee)				
Vessels	385	368	**17**	20
Under construction	3,964	-	**3,964**	2,908
Development				
Land and buildings	2,851	1,349	**1,502**	1,539
	$ 627,032	$ 319,681	**$ 307,351**	$ 297,381

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 Operating Revenues and Expenses Schedule 2 *(dollars in thousands)*

For the year ended March 31	2011	2010
Rail Services		
Sales revenue (Notes 10 and 16)	$ **51,704**	$ 53,415
Government reimbursement (Note 8)	**46,059**	30,459
Operating revenue	**97,763**	83,874
Operating expense	**73,629**	70,029
Operating income	**24,134**	13,845
Amortization of property, plant and equipment	**9,462**	8,899
Amortization of deferred contributions related to property, plant and equipment	**(2,192)**	(1,439)
Pension expense	**11,045**	9,647
Loss (gain) on sale of property, plant and equipment	**(517)**	262
Interest expense	**587**	925
Income (loss) from operations	**5,749**	(4,449)
Telecommunications (Ontera)		
Sales revenue	**31,949**	32,662
Operating expense	**25,297**	26,862
Operating income	**6,652**	5,800
Amortization of property, plant and equipment	**5,162**	4,969
Amortization of deferred contributions related to property, plant and equipment	**(871)**	(882)
Pension expense	**2,827**	2,660
Impairment of property, plant and equipment (Note 11)	**1,322**	-
Sales tax assessment	**-**	1,556
Interest expense	**937**	667
Loss from operations	**(2,725)**	(3,170)
Motor Coach Services		
Sales revenue	**11,050**	10,583
Operating expense	**10,807**	10,429
Operating income	**243**	154
Amortization of property, plant and equipment	**506**	542
Pension expense	**1,171**	1,047
Loss on sale of property, plant and equipment	**-**	170
Interest expense	**101**	111
Loss from operations	**(1,535)**	(1,716)
Refurbishment		
Sales revenue	**18,553**	17,089
Operating expense	**18,445**	18,249
Operating income (loss)	**108**	(1,160)
Amortization of property, plant and equipment	**85**	85
Pension expense	**1,886**	1,708
Write down of intangible assets	**-**	4,039
Interest expense	**140**	250
Loss from operations	**(2,003)**	(7,242)

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 Operating Revenues and Expenses Schedule 2 (continued) *(dollars in thousands)*

For the year ended March 31	2011	2010
Marine Services (Moosonee)		
Sales revenue	153	156
Government reimbursement (Note 8)	41	41
Operating revenue	194	197
Operating expense	247	182
Income (loss) from operations	(53)	15
Rental Properties		
Sales revenue	563	519
Operating expense	318	362
Operating income	245	157
Amortization of property, plant and equipment	37	37
Gain on sale of property, plant and equipment	(1)	(19)
Income from operations	209	139
Administration		
Operating revenue	-	-
Operating expense	8,673	7,646
Operating loss	(8,673)	(7,646)
Amortization of property, plant and equipment	111	141
Pension expense	1,618	1,353
Interest expense	106	110
Loss from operations	(10,508)	(9,250)
Total Operations		
Sales revenue	113,972	114,424
Government reimbursement (Note 8)	46,100	30,500
Total revenues	160,072	144,924
Expenses	137,416	133,759
Income from operations	22,656	11,165
Amortization of property, plant and equipment	15,363	14,673
Amortization of deferred contributions related to property, plant and equipment	(3,063)	(2,321)
Pension expense	18,547	16,415
Write down of intangible assets	-	4,039
Sales tax assessment	-	1,556
Interest expense	1,871	2,063
Impairment of property, plant and equipment (Note 11)	1,322	-
Loss (gain) on sale of property, plant and equipment	(518)	413
Loss from operations	**$ (10,866)**	$ (25,673)

NOTE 1

Nature of Operations

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

These 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 for the foreseeable future.

The Commission has a history of operating losses and cash flows that, without the support of the Government of Ontario, would be negative. With the completion of the latest pension fund valuation the Commission is committed to funding significant going concern and solvency deficits. The Commission's ability to maintain operations is dependent on the continued support from the Government of Ontario while completing plans to reduce pension deficits and minimize losses from operations while complying with regulatory requirements.

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 balance sheet classifications used to reflect these on a liquidation basis could differ from those applicable to a going concern.

NOTE 2

Significant Accounting Policies

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. They include the accounts of the Commission and its wholly-owned subsidiaries, Ontario Northland International Consulting Services Inc, O.N. Tel Inc. (o/a Ontera), AirDale Limited and Nipissing Central Railway Company.

Revenue Recognition

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

a) services are provided or products delivered to customers
b) there is a 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.

NOTE 2 *continued*

Revenue Recognition (continued):

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.

Government Assistance

Government assistance related to operating expenditures is recognized as revenue when the related expenditures are incurred.

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

Property, Plant and Equipment

Property, plant and equipment are stated at acquisition cost less accumulated amortization. Amortization is provided for using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives for principal categories of property, plant and equipment 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 for 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.

NOTE 2 *continued*

Employee Future Benefits (continued):

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. Net actuarial gains or losses and past services pension costs, in excess of 10 percent of the greater of the benefit obligation and the fair value of plan assets, are amortized on a straight-line basis over the expected average remaining service life of the employees covered by the plans (approximately 12 years).

Pension fund assets are valued using current market values. Prior services costs arising from all other sources, including the prospective initial application of CICA Handbook Section 3461, are amortized over the expected average remaining service period of active employees who are expected to receive benefits under the plan at the date of amendment.

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 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 2011 was $24,397,000 ($24,771,000 in 2010).

Impairment of Property, Plant and Equipment

Property, plant and equipment, subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. 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, an impairment charge is recognized 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.

NOTE 2 *continued*

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated at the prevailing rates of exchange at the consolidated balance sheet 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 net income. Included in Rail revenue is a foreign currency gain of $ 244,000 (2010 - $853,000) arising mainly from Rail traffic settlements between Canada and the U.S.A.

Financial Instruments

All financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

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

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

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

The Commission uses the following classifications: cash is classified as held-for-trading; accounts receivable are classified as loans and receivables; and, accounts payable and accrued liabilities, operating lines of credit and long-term debt are classified as other liabilities.

Income Taxes

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

Accounting Estimates

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the useful lives of property, plant and equipment, 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 financial statements in future periods could be significant. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in income in the year in which they become known.

Cash

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

Comprehensive Income

Comprehensive income is defined as the change in equity for transactions and other events from non-owner sources. Other Comprehensive Income refers to items recognized in comprehensive income that are excluded from net earnings. The Commission does not have any transactions that would affect comprehensive income thus no impact on financial statements.

NOTE 3

Cash

	2011	2010
Cash	**$ 2,185,000**	$ 328,000
Cash related to Reserve for Self Insurance (Note 12)	**4,638,000**	4,495,000
Cash	**$ 6,823,000**	$ 4,823,000

NOTE 4

Employee Future Benefits

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

The Accrued Pension Benefit Asset or Obligation and expenses are determined annually by independent actuaries in accordance with accepted actuarial practices and Canadian generally accepted accounting standards using management's best estimates. The date of the most recent actuarial valuation for the contributory pension plan for funding purposes was January 1, 2010. The results of this valuation were extrapolated to December 31, 2010. In accordance with existing pension regulations, annual valuations will be completed for the Commission's pension plan. The date of the most recent report for accounting purposes for the non-pension post employment benefit plan was December 31, 2010. This report is completed annually.

The pension plan assets target percentage allocation and average asset allocations as at March 31, 2011 and March 31, 2010, by asset category are as follows:

	Target	2011	2010
Equity securities – Domestic	20% - 30%	26.3%	23.4%
Equity securities – Foreign	10% - 30%	17.4%	17.5%
Debt securities	35% - 55%	52.8%	55.9%
Real estate	0% - 15%	1.8%	1.9%
Short term and other	0% - 15%	1.7%	1.3%
Total		**100%**	100%

NOTE 4 *continued*

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

Pension Plans:	Pension	SERP	2011	2010
Accrued benefit obligation	**$ (499,814,000)**	**$ (2,884,000)**	**$ (496,319,000)**	$ (507,550,000)
Plan assets at fair value	**452,857,000**	**-**	**452,857,000**	422,865,000
Funded status – plan (deficit) surplus	**(46,957,000)**	**(2,884,000)**	**(49,841,000)**	(84,685,000)
Unamortized initial liability	**-**	**196,000**	**196,000**	392,000
Unamortized past service costs	**10,633,000**	**61,000**	**10,694,000**	12,586,000
Unamortized net actuarial (gain) loss	**97,065,000**	**(224,000)**	**96,841,000**	130,357,000
Accrued benefit asset (liability) net of valuation allowance – end of year	**$ 60,741,000**	**$ (2,851,000)**	**$ 57,890,000**	$ 58,650,000

The valuation allowance in the current and prior year was nil.

	Pension	SERP	2011	2010
Accrued benefit asset – beginning of year	**$ 61,394,000**	**$ (2,744,000)**	**$ 58,650,000**	$ 70,475,000
Expense	**(12,194,000)**	**(291,000)**	**(12,485,000)**	(11,973,000)
Funding contributions	**5,576,000**	**184,000**	**5,760,000**	148,000
Special payments	**5,965,000**	**-**	**5,965,000**	-
Accrued benefit asset – end of year	**$ 60,741,000**	**$ (2,851,000)**	**$ 57,890,000**	$ 58,650,000

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

Non-Pension Benefit Plans:	2011	2010
Accrued benefit obligation – beginning of year	**$ (68,296,000)**	$ (62,632,000)
Unamortized net actuarial gain	**(38,000)**	(1,069,000)
Adjustment to match booked position	**-**	(531,000)
Accrued benefit liability – end of year	**$ (68,334,000)**	$ (64,232,000)

	2011	2010
Accrued benefit liability – beginning of year	**$ (64,232,000)**	$ (61,821,000)
Expense – Non-WSIB	**(3,699,000)**	(3,671,000)
Expense– WSIB	**(2,363,000)**	(240,000)
Funding contributions – Non-WSIB	**1,960,000**	2,031,000
Adjustment to match booked position – Non-WSIB	**-**	(531,000)
Accrued benefit liability – end of year	**$ (68,334,000)**	$ (64,232,000)

Included in the accrued non-pension benefit liability are workers' compensation benefits in the amount of $14,830,000 (2010 – $12,467,000). This amount has been determined from the most recent available actuarial calculations provided by the Workplace Safety and Insurance Board as at December 31, 2010.

NOTE 4 *continued*

c. Components of Net Periodic Pension Benefit expense

	2011	2010
Current service cost less employee contributions	**$ 7,434,000**	$ 7,729,000
Interest on accrued benefit obligation	**25,160,000**	27,824,000
Expected return on plan assets	**(28,871,000)**	(27,643,000)
Amortization of initial obligation	**196,000**	197,000
Amortization of past service costs	**1,892,000**	1,892,000
Amortization of net actuarial loss	**6,674,000**	1,974,000
	$ 12,485,000	$ 11,973,000

d. Components of Net Periodic Non-Pension Benefit Expense

	2011	2010
Current service cost	**$ 3,431,000**	$ 1,136,000
Interest on accrued benefit obligation	**2,631,000**	2,920,000
Amortization of net actuarial gain	**-**	(145,000)
Adjustment to match booked position	**-**	531,000
	$ 6,062,000	$ 4,442,000

e. Weighted Average Assumptions

	2011	2010
Discount rate – pension	**5.00 %**	5.00 %
Discount rate – non pension	**5.25 %**	5.75 %
Discount rate – WSIB	**7.00 %**	7.00 %
Expected long-term rate of return on plan assets	**6.50 %**	7.00 %
Rate of compensation increase		
2010 & 2011	**0 %**	1.5 %
2012 & 2013	**0.5 %**	2.0 %
2014 & thereafter	**3.0 %**	3.0 %
Average remaining service period (years)	**12**	12
Drug cost increases	**5.0%**	5.0%
Medical and hospital cost increases	**5.0%**	5.0%
Dental cost increases	**4.5%**	4.5%
Vision care cost increases	**0%**	0%

NOTE 5

Operating Lines of Credit

The Commission currently holds an operating line of credit with the Ontario Financing Authority (OFA) in the amount of $8,000,000, of which $8,000,000 was being utilized as at March 31, 2011 (2010 - $8,000,000) which bears interest at the Province of Ontario's cost of borrowing plus 5 basis points on the date of each advance. In addition, the Commission has a revolving operating line of credit with the OFA in the amount of $7,000,000, of which $4,300,000 was being utilized as at March 31, 2011 (2010 - $4,925,000) which bears interest at the Province of Ontario's cost of borrowing plus 40 basis points based on the date of each advance.

The Commission also holds a demand operating line of credit with the Canadian Imperial Bank of Commerce in the amount of $1,500,000 which is available for letters of guarantee and is secured by the Commission's accounts receivable. As of March 31, 2011, two letters of guarantee totalling $1,428,000 (2010 - $ 1,428,000) have been issued with an annual renewal commission of 0.375%.

NOTE 6

Deferred Contributions Related to Property, Plant and Equipment

Deferred contributions related to property, plant and equipment represent the unamortized capital contributions received from the Ministry of Northern Development, Mines and Forestry to fund acquisitions of property, plant and equipment. The amortization of deferred contributions related to property, plant and equipment 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:

	2011	2010
Balance – beginning of year	**$ 89,078,000**	$ 66,800,000
Contributions from the Province	**22,566,000**	24,599,000
Amortization to revenue	**(3,063,000)**	(2,321,000)
Balance – end of year	**$ 108,581,000**	$ 89,078,000

NOTE 7

Long-term Debt and Capital Lease Obligation

a. Long-term Debt

	2011	2010
Loan from Ontario Financing Authority, bearing interest at 5.22% per annum, repayable in blended monthly payments of $30,000 for 15 years beginning February 1, 2005.	**$ 2,584,000**	$ 2,809,000
Loan from Ontario Financing Authority, bearing interest at 5.60% per annum, repayable in blended monthly payments of $156,000 for 15 years beginning January 1, 2000.	**6,315,000**	7,789,000
Loan from Ontario Financing Authority, bearing interest at 6.37% per annum, repayable in blended monthly payments of $109,000 for 15 years beginning September 1, 1999.	**4,018,000**	5,040,000
Loan from Ontario Financing Authority, bearing interest at 4.90% per annum, repayable in blended monthly payments of $13,000 for 25 years beginning February 1, 2006.	**2,024,000**	2,083,000
Loan from Bank of Montreal, bearing interest at 5.11% per annum, repayable in blended monthly payments of $64,000 for 10 years beginning April 30, 2008. Secured by a floating charge on all Ontera assets.	**4,509,000**	5,031,000
Loan from Bank of Montreal, bearing interest at 5.95% per annum, repayable in blended weekly payments of $32,000 for 15 years beginning October 7, 2010. Secured by a floating charge on all Ontera assets. Prior year construction advance converted to a fixed rate $17,000,000 loan.	**16,670,000**	16,000,000
	36,120,000	38,752,000
Less current portion	**4,241,000**	4,383,000
Long-term debt	**$31,879,000**	$34,369,000

Interest on long-term debt was $ 1,645,000 ($ 1,426,000 in 2010).
Payments required in the next five years and thereafter are as follows:

2011-2012	$ 4,241,000
2012-2013	4,490,000
2013-2014	4,770,000
2014-2015	3,788,000
2015-2016	1,987,000
Thereafter	16,844,000
	$ 36,120,000

NOTE 7 *continued*

b. Capital Lease Obligation

	2011	2010
Capital lease bearing interest at 7% per annum, repayable in blended monthly payments of $1,000 for 5 years beginning September 22, 2006.	**$ 24,000**	$ 35,000
	24,000	35,000
Less current portion	**24,000**	11,000
Capital lease obligation	**$ -**	$ 24,000

Payments under capital lease included above are as follows:

2011-2012	$ 25,000
Total minimum payments	25,000
Less: amount representing interest	1,000
Obligations under capital lease	$ 24,000

NOTE 8

Government Reimbursement

In accordance with a Memorandum of Understanding between the Commission and the Ministry of Northern Development, Mines and Forestry (the "Ministry"), certain operations of the Commission have been designated as non-commercial. The Commission and the Ministry have entered into annual contribution agreements which define the amount of compensation which the Ministry 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. A reimbursement of $2,500,000 (2010 - $2,500,000) was received for the year ended March 31, 2011.

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

	2011	2010
Ministry of Northern Development, Mines and Forestry:		
Rail – Passenger Service and Moosonee Branch	**$ 21,160,000**	$ 21,160,000
Marine Services (Moosonee)	**40,000**	40,000
One-time funding	**22,400,000**	6,800,000
	43,600,000	28,000,000
National Transportation Agency of Canada:		
Current year's operations	**2,500,000**	2,500,000
	$ 46,100,000	$ 30,500,000

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

NOTE 9

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 $100,000 from retained earnings to the Reserve for Self Insurance to finance such costs. Interest earned on the reserve balance and claims expensed in the reserve balance are recorded as revenue and expenses in operations then transferred to/from the reserve.

Reserve assets include cash in the amount of $ 4,554,000 (2010 - $ 4,411,000) plus $ 84,000 (2010 - $84,000) receivable from the Commission.

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

NOTE 10

Passenger Revenue

In compliance with the Travel Industry Act, the 2011 gross retail sales were $ 245,000 (2010 - $ 227,000) and the 2011 gross wholesale sales were $ 158,000 (2010 - $ 83,000).

NOTE 11

Impairment of Property, Plant and Equipment

Impairment charges of $1,322,000 for technologically obsolete telecommunications equipment of the Ontera division were recognized in operating income because the carrying amount of the long-lived asset was not recoverable and exceeded its fair value based on undiscounted cash flows.

NOTE 12

Contingencies

Statement of claim

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 $2,000,000 deductible. Should any loss result, it would be charged to operations when the amount is ascertained.

NOTE 13

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.

NOTE 14

Financial Instruments

The Commission's financial instruments consist of cash and cash equivalents, accounts receivable, operating lines of credit, accounts payable and accrued liabilities and long-term debt.

Fair value

The fair value of cash and cash equivalents, accounts receivable, operating lines of credit, and accounts payable and accrued liabilities, are comparable to their carrying value due to their short-term maturity date. The fair value of long-term debt is approximately equal to its carrying value since the applicable interest rates are comparable to market rates.

Financial Risk Management

In the normal course of operations, the Commission is exposed to various risks such as commodity risk, credit risk, currency risk, interest rate risk and liquidity risk. To manage these risks, the Commission follows a financial risk management framework, which is monitored and approved by senior management with a goal of maintaining a strong balance sheet and optimizing free cash flow.

Commodity Risk

The Commission is exposed to commodity risk related to purchases of diesel fuel and the potential reduction in net income due to increase in the price of diesel. Because fuel expenses constitute a large portion of the Commission's operating costs, volatility in diesel fuel prices can have significant impact on the Commission's income. Items affecting volatility in diesel fuel include, but are not limited to, fluctuations in world markets for crude oil and distillate fuels, which can be affected by supply disruptions and geopolitical events. The impact to net income if diesel fuel prices increase by one cent per litre would be a decrease in net income by $139,000. The impact of variable fuel expenses is mitigated substantially through a fuel surcharge program which apportions incremental changes in fuel prices to shippers within agreed upon guidelines.

Credit risk

The Commission is exposed to credit risk due to the concentration of large customers (see Economic Dependence - Note 16 for further details).

Credit risk associated with cash and cash equivalents is minimized substantially by ensuring that these financial assets are placed with: governments; major financial institutions that have been accorded strong investment grade ratings by a primary rating agency; and/or other creditworthy counterparties. An ongoing review is performed to evaluate changes in the status of counterparties.

Credit risk associated with accounts receivable is minimized by the Commission's program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Commission maintains allowances for potential credit losses, and any losses to date have been within management's expectations.

NOTE 14 *continued*

Credit risk (continued)

The following table presents an analysis of the age of customers accounts receivable net of allowance as at the date of the financial statements.

As at March 31, 2011

Customer accounts receivables net of allowance for doubtful accounts (in thousands)	
Current	**$ 18,010**
30-60 days past billing date	**1,870**
60-90 days past billing date	**(75)**
90-120 days past billing date	**336**
Greater than 120 days past billing date	**438**
Trade accounts receivable	**$ 20,579**

Fifty-two percent of the balance in the greater than 120 days past billing date ($228,000) is due from one large customer.

The following table presents a summary of the activity related to the Commission's allowance for doubtful accounts.

Years ended March 31 (thousands)	**2011**	2010
Balance, beginning of year	**$ 3,677**	$ 3,172
Additions (provision for doubtful accounts)	**242**	614
Write-offs	**(235)**	(109)
Balance, end of year	**$ 3,684**	$ 3,677

The Commission must make significant estimates in respect of the allowance for doubtful accounts. Current economic conditions, historical information, why the accounts are past-due and line of business from which the customer accounts receivable arose are all considered when determining the amount of the allowance for doubtful accounts. The allowance for doubtful accounts is calculated on a specific-identification basis for doubtful customer accounts receivable over a specified dollar value. For the telecommunications division the allowance is based on a percentage of all outstanding customer accounts receivable balances.

Currency risk

The Commission is not exposed to significant concentrations of currency risk.

Interest rate risk

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

The Commission's long-term debt has fixed interest rates. The Commission expects to hold its long-term debt to maturity. As a result, management is of the opinion that the cash flow risks associated with long-term debt are not material.

NOTE 14 *continued*

Liquidity Risk

The Commission monitors its liquidity to ensure access to sufficient funds to meet operational requirements. The Commission manages its liquidity by forecasting its cash flow requirements and monitoring actual cash flows as well as by managing maturity profiles of financial assets and financial liabilities. The Commission does not use derivative instruments to reduce its exposure to liquidity risk.

NOTE 15

Capital Disclosures

Management's objectives when managing capital are to safeguard the Commission's ability to continue as a going concern, so that it can continue to provide benefits to the Province of Ontario and to maintain an optimal capital structure to reduce the cost of capital.

The Commission's objectives when managing capital are:
- To support and promote northeastern Ontario economic development, job creation and community sustainability;
- To support, promote and enhance transportation and telecommunications linkages and clustering between communities within the region and between northeastern Ontario and other regions.

The Commission defines its capital as follows:
- Long term debt and capital leases, including the current portion thereof,
- Short term borrowing, and
- Retained earnings.

The Commission manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. The Commission requires approvals from the Province to maintain or adjust its capital structure. The Commission is not subject to any externally imposed capital requirements.

NOTE 16

Economic Dependence

During 2011, the Rail Services Division derived 43% (2010 49%) of its revenue from three major customers.

NOTE 17

Comparative Figures

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

Ontario Northland

555 Oak Street East, North Bay, ON P1B 8L3

T. 1.705.472.4500 I F. 1.705.476.5598

www.ontarionorthland.ca