Ontario Northland Transportation Commission

2009 – 2010 Annual Report

Ontario Northland

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Table of Contents

All economic and social impact highlights in this report are from the report: "Economic and Social Impact of Ontario Northland" by HDR Corporation with Dr. Bakhtiar Moazzami, March 2010, unless otherwise noted.

Ontario Northland's mandate, as an Agency of the Government of Ontario, is:

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

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

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

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

Over the last year, we have made significant strides in our efforts to ensure our ongoing contribution to the social and economic prosperity of Northeastern Ontario and our fulfilment of our mandate objectives. In 2009-2010, we undertook two key projects specifically aimed at quantifying our current contribution to the region and the Province, and planning to ensure our success well into the future.

HDR Corporation, in association with Dr. Bakhtiar Moazzami, completed a study to quantitatively and qualitatively assess the economic and social impact of Ontario Northland. They determined that, conservatively, Ontario Northland and the economic activity it stimulates account for $209.4 million of the GDP in the region. This translates to a contribution of about 1.0% to the entire economy of Northeastern Ontario (about 1% of GDP and 0.9% of employment). Ontario Northland's impact on GDP is dramatic in comparison to that of other industries: it has the same financial effect on the GDP of Northeastern Ontario as all of tourism combined and over half as much as forestry and logging.

In cooperation with the Ministry of Northern Development, Mines and Forestry, we have also developed a Long Term Sustainability Plan (LTSP), which has been submitted for review and approval by the government. The creation of the LTSP, which is an extension of our strategic plan, involved a critical examination of all of our operations and engaged both internal and external stakeholders. The LTSP provides a fifteen year view of the organization, highlighting our required asset and infrastructure renewal costs, process improvement opportunities and resulting cultural change.

Already, we have begun to move forward with some elements of the plan, which are essential to our current operations and which could be implemented within our existing financial framework. Most notably, we:

- have formalized our partnership with the Mushkegowuk Council, which represents eight Mushkegowuk Cree communities in the James Bay region in order to cooperatively better meet their needs and pursue opportunities which would benefit both parties.
- are increasingly focusing on the environmentally friendly nature of our operations and, as a company, are progressively pursuing green initiatives.
- are implementing changes to business processes, culture, systems and labour relations within our Refurbishment Division. Refurbishment is being used as an incubator, where we can introduce, test and manage the changes on a smaller scale, before rolling them out to the entire Company.
- are focusing on corporate structure and process improvements throughout the organization.

Our efforts to plan for the sustainability of the Company have become increasingly important, given the challenging economic landscape in which we operate: the mining and forestry sectors, which drive our rail freight business, have suffered; travel and tourism spending have declined in the face of the recession. We have worked to offset the impact on revenues by increasing efficiencies and reducing expenses.

Ontario Northland incurred a loss of $25.8 million for the year, $17.7 million of which related to non-operational expenses. We continue to work to improve our financial outlook while at the same time, recognizing our dual mandate and the valuable economic and social impact of our organization in the region.

We believe in our role and importance in the region and remain committed to our vision of "Connected communities; a prosperous North."

Sincerely,

Ted Hargreaves

Chair

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.

Ontario Northland has an estimated total economic impact of $209.4 million in Northeastern Ontario. This includes the direct effects of Ontario Northlands operations, the spin-off effects on businesses providing goods and services to Ontario Northland, as well as the effects of re-spending of employee wages and salaries. In other words, Ontario Northland and the economic activity it stimulates account for $209.4 million of the GDP for the region. Across Ontario, we account for $396.2 million of business revenue and $218.9 million of GDP.

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.

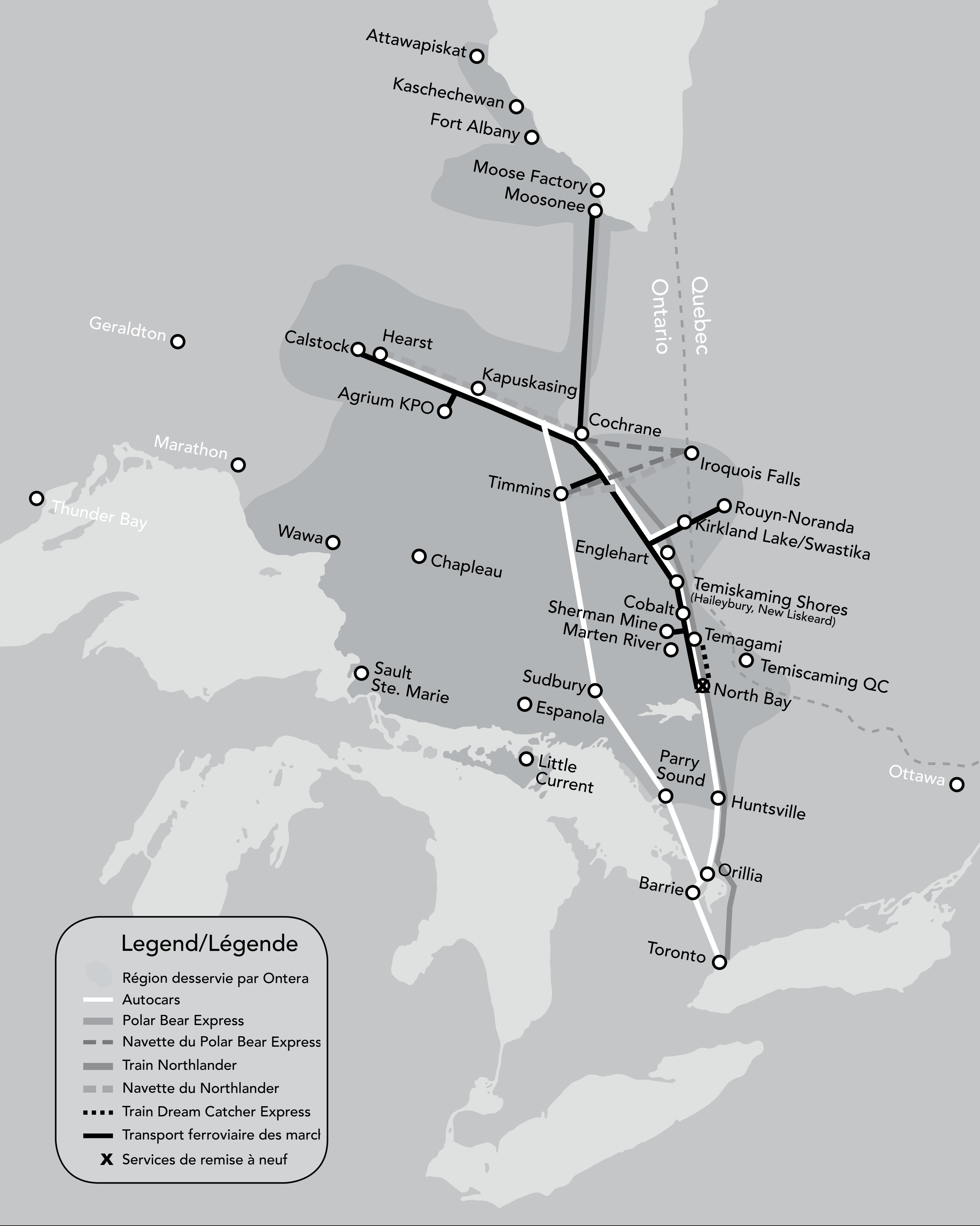
Our Services

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 Moosonee ferry (freight transportation between Moosonee and the island of Moose Factory).

Ontario Northland's impact on GDP is dramatic in comparison to that of other industries: it has the same financial effect on the GDP of Northeastern Ontario as all of tourism combined and over half as much as forestry and logging.

For every dollar of direct revenue produced by Ontario Northland, the value to the Province of Ontario as a business output multiplier is $2.11 over 2 times the value of $1.00 of revenue.



Ontario Northland

Commercial (non-subsidized) services include:

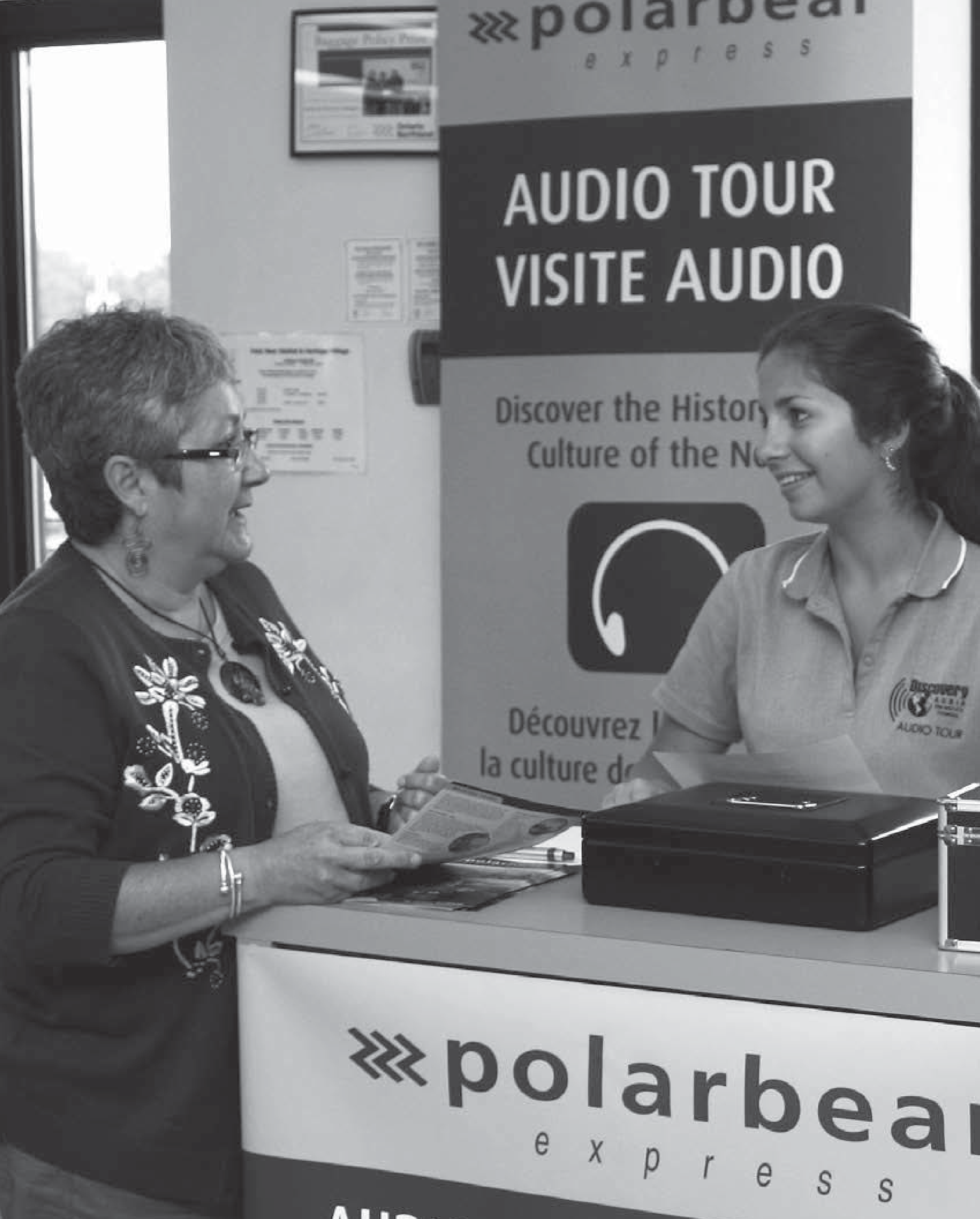
- Ontera telecommunications services;
- Rail freight services;
- Refurbishment services;
- Scheduled and charter motor coach services and Bus Parcel Express; and
- The Dream Catcher Express (fall excursion train travelling between North Bay and Temagami).

For each job at Ontario Northland, there is another job somewhere in Northeastern Ontario that exists because of its business presence in the region. 2,140 jobs in Northeastern Ontario are attributable to the organization. Our impact goes beyond our operating area, as we contribute 2,748 jobs in the Province of Ontario (1,060 direct jobs, 641 indirect jobs, and 1,047 induced jobs).

Our Employees

Our Company boasts more than 1,000 employees, who live and work in Northern Ontario and Northwestern Quebec.

Ontario Northland contributes about 0.9% to the entire employment in Northeastern Ontario and is a large employer in many of the region's communities – for instance, 2.3% of the labour force in North Bay, 5.5% in Cochrane and 14.9% in Englehart. Ontario Northland's contribution to the total income in the communities in which it has employees ranges from 2.3% in Kirkland Lake to 5.5% in North Bay, 11.5% in Cochrane and 48.4% in Englehart.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Ontario Northland is an agency of the Government of Ontario. An agency means a provincial government organization:

- which is established by the government, but is not part of a ministry; which is accountable to the government;
- to which the government appoints the majority of the appointees; and
- to which the government has assigned or delegated authority and responsibility, or which otherwise has statutory authority and responsibility to perform a public function or service.

The availability of services provided by Ontario Northland is considered an important factor in business location decisions and staying in business.

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.

The Company strives to further expand services to underserviced and remote areas so as to improve the level of service and respond to customer needs.

Ontario Northland is also governed by a Memorandum of Understanding (MOU) that was most recently updated in 2007. The purpose of this MOU is to set the accountability relationship between the Ontario Northland Transportation Commission and the Ministry of Northern Development, 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 telecommunications 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 telecommunications services that are safe, reliable and responsive to customers, residents and businesses in Northeastern Ontario; and

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

Ontario Northland contributes about 1.0% to the entire economy of Northeastern Ontario (about 1% of GDP and 0.9% of employment). In the absence of Ontario Northland, its employment and the business supplier opportunities that the Company generates, total GDP in the region would likely decline in the short to medium term by 1%. This impact is similar in magnitude to the effects of the current worldwide economic downturn on the Canadian economy. For example, Statistics Canada has reported that the total Canadian GDP fell by 1% in December 2008 and by 0.8% in the entire fourth quarter of 2008.

Reporting Structure

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

There are 13.2 jobs across Northeastern Ontario for each $1 million of expenditures by Ontario Northland on salaries, operational inputs and capital programs.

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)

Mr. Hargreaves is the Ontario Lakeland Regional Managing Partner with BDO Dunwoody LLP. In addition, he is Finance Chair for the Pro Cathedral Parish as well as Founding Treasurer for the North Bay Soup Kitchen. He is also a Member of 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)

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)

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

Margaret Hague, Spring Bay

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

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

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.

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)

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

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

Lad Shaba, Kirkland Lake

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

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

- **Executive and Governance Committee**

  The Executive and Governance Committee has the authority to provide policy assistance and make recommendations, on behalf of the Commission, on matters relating to 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

Paul Goulet – Chief Operating Officer and Vice President and General Manager of Ontera

Kevin Donnelly – Vice President of Finance and Administration

Randy Evers - Vice President of Rail

Cheryl Sutton – Vice President of Passenger Services

Russ Thompson – Counsel

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
- Communications (Marketing and Public Relations)
- Finance
- Legal

Ontario Northland employees and pensioners, along with their families, contribute to the vibrancy of Northeastern Ontario through their significant volunteerism and participation in community organizations, activities and events. Employees reported volunteering, on average, 106 hours per year, while pensioners reported an average of 128 hours per year.

Office of the Chief Operating Officer

The Office of the Chief Operating Officer (COO) was established in 2008 as a means to provide a more consolidated and rigorous focus on organizational effectiveness across Ontario Northland's operating divisions. The division has taken on a dual functionality in that it encompasses 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:

- Facilities Management
- Human Resources
- Information Technology
- Planning and Risk Management

Accomplishments

- **Long Term Sustainability Plan**

  Reporting to the President and CEO, one of the first undertakings of the COO was to lead the development of the Long Term Sustainability Plan (LTSP). Requested by MNDMF, 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, as well as for utilizing the Refurbishment Division as an incubator for many of the process and systems improvements that are required to improve operational effectiveness. Refurbishment was chosen because of its relatively small size (100 people) and because of the need to improve work processes and profitability in preparation for the next GO Transit contract expected to be awarded in late 2010.

  A formal change management plan was developed and introduced in 2009 to facilitate the implementation of lean manufacturing, a process improvement methodology designed to increase throughput and eliminate waste in manufacturing and production. A Refurbishment Transformation Committee consisting of labour and management was established to guide the effort, under the direction of Ontera's project management office (PMO). A third party consultant, Deloitte, was engaged to assist in the implementation which early indicators suggest to be a very successful beginning to a key component in Ontario Northland's transformation.

- **Partnership with Mushkegowuk Council**

  The Mushkegowuk Council and Ontario Northland have crafted and approved formal terms of reference for a long term planning partnership. The partnering will consider a variety of joint initiatives that could potentially 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.

- **Economic and Social Impact Study**

  Ontario Northland engaged HDR Corporation, in association with Dr. Bakhtiar Moazzami, to conduct an Economic and Social Impact Study in order to quantitatively and qualitatively assess the Company's overall impact in the communities it serves within Ontario. The purpose of this study was to provide stakeholders with a credible evaluation of Ontario Northland's impact in its communities in order to reinforce its important role in Northern Ontario and the many benefits it brings to the region

  The presented results, which are conservative in nature, indicate that Ontario Northland has an estimated total economic impact of $209.4 million in Northeastern Ontario and $218.9 million of GDP in all of Ontario. Ontario Northland's impact on GDP is dramatic in comparison to that of other industries: it has the same financial effect on the GDP of Northeastern Ontario as all of tourism combined and over half as much as forestry and logging.

  In addition, there is a strong agreement in local communities that the presence of Ontario Northland improves the quality of life in Northeastern Ontario. The key factors influencing this impact include: high quality employment and apprenticeship opportunities; passenger transportation services; and provision of other high quality and reasonably priced services.

  Ontario Northland employees and pensioners, along with their families, contribute to the vibrancy of Northeastern Ontario through their significant volunteerism and participation in community organizations, activities and events.

- **Facilities Management Efficiencies**

  Efforts to centralize facility management have resulted in the creation of significant expertise to oversee facility assets, as well as in reduced expenses by: enabling economies of scale; reducing administration and processing costs; and facilitating the tendering of like-services in multiple locations. This centralization process is continuing as we work to achieve greater efficiencies.

- **Energy Management**

  We have continued to focus on the implementation of energy management solutions for critical structures. Initiatives related to lighting retrofit audits, a Swagelock steam utilization audit of North Bay Shop Complex, and critical structures energy use assessments have identified substantial savings.

- **Human Resources**

  Increased overall accountability and transparency have resulted from our focus on: an enhanced leadership model; training; adherence to policies and collective agreements; and clear and consistent performance indicators. Open communication throughout the organization is being fostered through a mutually respectful working relationship with all Union leaders.

- **Health and Safety**

  Positive outcomes were realized in health and safety as we achieved a 28% reduction in the number of lost-time injuries when compared to the previous year. This dramatic improvement can be attributed to the reorganization of some of our Workplace Health and Safety Committees, additional training for our workers, supervisors and committee members, and a renewed focus on health and safety. These advancements helped us to reach our injury frequency goal, which we are continually striving to further improve upon.

- **Information Technology**

  A new intranet site was launched this year, aimed at providing employees with improved online access to corporate information. In addition, employees participated in office productivity training relating to our email and collaboration platforms. We also expanded operating support system infrastructure to the entire enterprise, for applications such as problem and work order management.

Challenges

- **Cash Flow Concerns**

  Ontario Northland continued to face significant cash flow challenges in 2009-2010. As a result, capital spending was restricted.

- **Cost Saving Measures**

  Many of our rail freight customers were significantly affected by the weakness in commodity markets as the result of the global economic crisis. As a result, our rail freight revenues fell short of budget. Cost saving measures were implemented throughout the organization to offset the reduced revenue stream.

- **Increased Efficiencies**

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

- **Facilities Management**

  Over the last year, we have focused on updating our corporate asset (facilities) inventory and identifying corresponding life-cycle cost requirements in order to assess and prioritize investment decisions. Building envelope analysis and internal (mechanical, HVAC, security, health and safety, and finishes) audits have identified significant costs associated with maintaining our critical structures over the next 15 years.

Ontera offers a full range of telecommunications solutions including Internet, long distance, voice and data services in Northern Ontario.

We have refocused our efforts on engineering of our fibre optic networks in order to provide robust, reliable telecommunications infrastructure for the benefit of residents, businesses, public sector and carrier customers in the North.

Accomplishments

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

  Ontera provides telecommunications services and solutions to more than 30,000 residential, business, public sector and carrier customers in communities throughout Northern Ontario.

- **Investing in Infrastructure**

  Over the last three years, we have focused our design and installation activities on extending our core fibre optic network infrastructure and establishing survivable fibre optic network routing and electronics. These investments include the construction of a fibre optic network 'ring' encompassing North Bay, Timmins, Foleyet, Chapleau and Sudbury. This ring offers core network service protection to customers in communities situated along the ring from service outages that occur as a result of fibre optic network cuts and failures. Traffic is instantly re-routed in the opposite direction of a failure without protracted service interruptions to customers. This ring will be connected upon completion to a similar ring in the south that connects Ontera's networks to Toronto through both Sudbury and North Bay.

  Ontera's core network is being further enhanced to provide full carrier class, quality-of-service capabilities. These enhancements will benefit future projects and all of Northern Ontario as Ontera increasingly becomes the digital gateway to the North.

Ontera is constantly upgrading and incorporating new technologies to ensure that customers and businesses in Northeastern Ontario can compete on an even communication playing field with customers and businesses around the world. For instance, the Company has constructed a state-of-the-art fibre optic network ring which provides increased reliability and protects critical services, such as 911, from failure or outage.

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

  We are working to convert our Moosonee cellular site from analog to digital (GSM) service and will soon be launching the latest in digital 3G cellular technology in Moosonee, with coverage in the immediate area. This will enable local customers to replace their analog cell phones, now obsolete in most areas, with state-of-the-art smart phones. Digital voice, text and data roaming will also now be available for customers visiting Moosonee and Moose Factory. This project is demonstrative of our efforts to ensure that both urban and rural residents and businesses in Northeastern Ontario have access to current technologies which allow them to be competitive in the global marketplace.

- **Health Care and Public Sector Solutions**

  Working with Hydro One Telecom, Ontera has completed connectivity to more than 75 healthcare provider sites in Northeastern Ontario's Local Health Integration Network 13 (LHIN 13). In addition, we are the service provider of choice for several municipalities, regional school boards and postsecondary institutions in Northern Ontario.

- **Broadband Access**

  Eighteen Northeastern Ontario communities now have access to high-speed Internet as a result of a nearly $7.1 million investment in information and communication technology (ICT) infrastructure in the region. NEOnet (the Northeastern Ontario Communications Network) oversaw the project, invested in by both the Northern Ontario Heritage Fund Corporation (NOHFC) and FedNor, while Ontera was responsible for the actual implementation of the project.

  The Company has invested in infrastructure that brings high quality service to remote areas that would not otherwise have been serviced and at the same time, provides competitors with access to Ontera's infrastructure, resulting in further benefit to the region.

  The two year project was completed in February 2010, and high speed Internet access is now available in: the Town of Latchford, North Milne, Temagami North, Goodfish Lake, Hough Lake, Chamberlain Township, Coleman Township, King Kirkland, Township of Gauthier, Gowganda, Nettie Lake, Foleyet, Chaput Hughes, Gogama, Sesekinika, Kenogami, Westree and Shining Tree. These 18 communities are now able to compete on a more level playing field with other regions across the country and throughout the world as broadband access continues to shrink the barriers of distance and geography.

  Ontera completed a similar project working with Blue Sky Region Community Network for the areas of Marten River, Tilden Lake and Odekirk.

- **Voice Services**

  Ontera has implemented IP-based softswitch telecommunications voice switching infrastructure that will enable us to offer local telephone services to residential, business and other carrier markets in a traditional circuit switched fashion or utilizing IP-based) access services. This investment will also allow us to offer customers advanced voice services with improved quality and efficiency, at competitive prices.

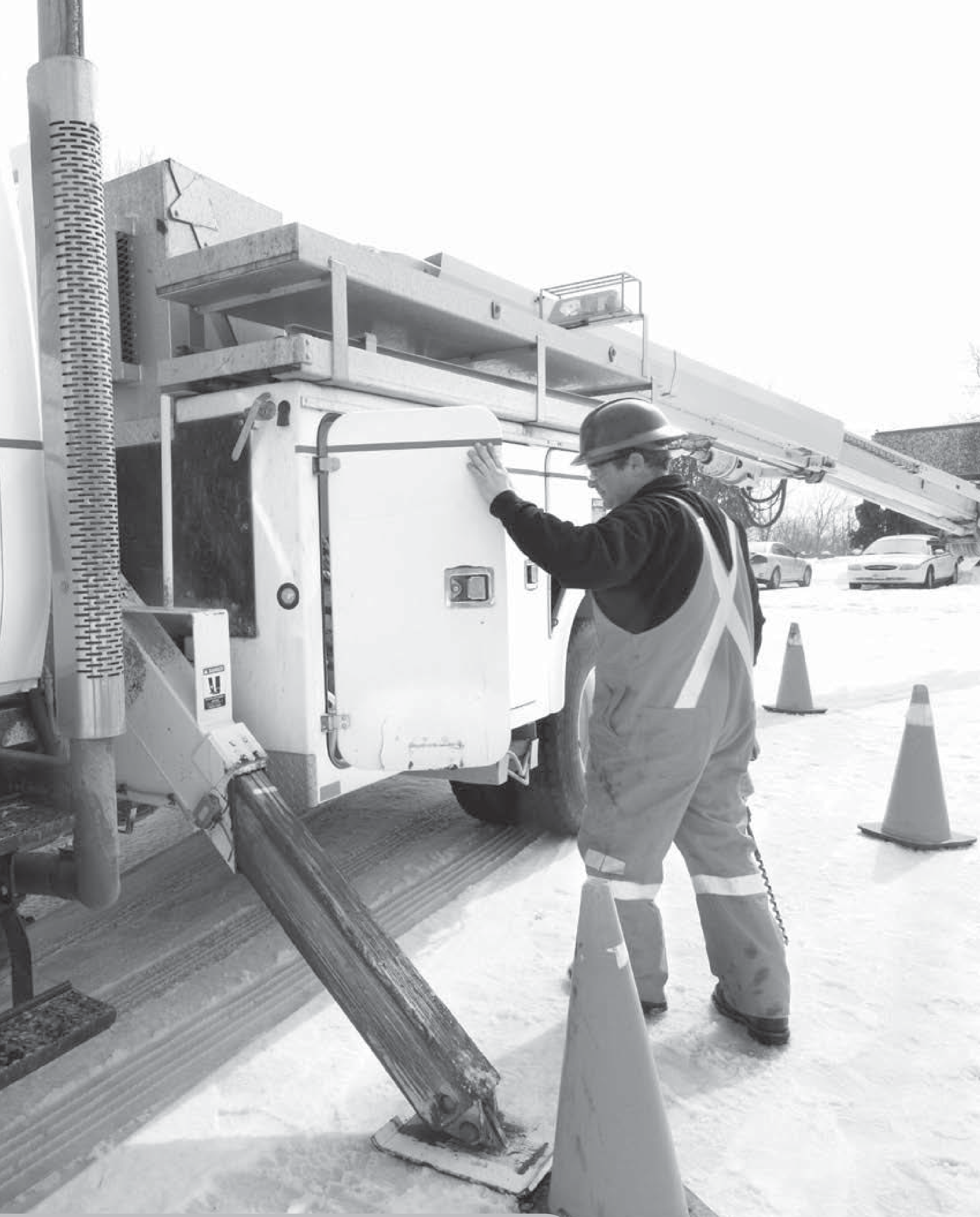
  Telecommunications infrastructure enhancements have improved health care access in the region. Investments have enabled electronic access to medical practitioners and specialists, efficient sharing of files and resources, and have improved timely and convenient access to overall medical care.

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

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

- **Internal Structure and Processes**

  We have strengthened internal structure and processes as we continually improve on business operations. Our Division 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.



Challenges

- **Ageing Infrastructure**

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

Telecommunications connectivity enables students throughout the North to access resources (i.e. online libraries, Internet, discussion groups), and participate in distance education and e-learning programs.

- **Achieving Profitability**

  To ensure our long-term success and viability, it is essential that we regain profitability. Over the past three fiscal years we have focused positive financial gains measured on an EBIDA basis. As we progress and major project activity is matched by ongoing, responsive cost containment measures and internal transformation activities focused on achieving a greater balance of carrier and wholesale revenues, profitability as measured on a net income basis is expected in 2010-2011.

- **Technology Substitution**

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

- **Economic Conditions**

  A sustained downturn in the economy could prompt residential and business customers to defer 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 our products and services.

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

As many as one in four residents of Northeastern Ontario may be using the motor coach services annually, and many more use passenger rail services. These services are particularly important to postsecondary students, seniors, individuals attending medical appointments, people who do not have access to a car, or who want to avoid driving in inclement weather.

Motor Coach Services

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

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

Rail Passenger Services

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

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

Ontario Northland provides affordable and high quality passenger transportation services in both urban and rural centres throughout Northeastern Ontario. Private companies would not likely provide these services in the absence of Ontario Northland due to low profitability.

Passenger trains and motor coaches are inherently environmentally friendly. In fact, according to a recent Transport Canada report, travel by motor coach has approximately one tenth of the social cost (which includes accidents and environmental impact) of light road vehicles.[1]

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 295,000 Passengers Each Year**

  In 2009-2010, more than 295,000 passengers travelled aboard either one of Ontario Northland's 25 highway motor coaches or on one of our three passenger trains.

[1] *Transport Canada, "Estimates of the Full Cost of Transportation in Canada", August 2008, Page 22.*

- **Customer Satisfaction**

  A July 2009 study on Perceptions of Bus and Rail Travel in Northeastern Ontario, performed by Oraclepoll Research Limited, indicated that 66% of customers were satisfied with their experience travelling on either an Ontario Northland motor coach or passenger train, with another 22% being neither satisfied nor dissatisfied.

  In addition, 74% and 70% indicated they were likely to recommend Ontario Northland's motor coach and passenger train services, respectively (with 11% and 13% neither likely nor unlikely).

  While these results are encouraging, we continue to work towards improvements in the areas of customer service and satisfaction.

The company internally "subsidizes" its Northern routes (which are more costly to operate due to sparser population/ridership and greater distances between communities) through revenues from Southern routes (routes south of North Bay and Sudbury, which enjoy stronger ridership).

- **New Motor Coaches**

  In late December, our Motor Coach Services Department accepted delivery of two new motor coaches. The two coaches, coupled with the "retirement" of a couple of older coaches, maintain our fleet of 25 coaches. These new coaches have several new features, including:

  - a plastic "booth" around the driver designed to provide enhanced security for our operators;
  - additional leg room for passengers with 51 seats on board (versus our traditional coaches which feature 55 seats);
  - enhanced wheelchair access; and
  - 10 power outlets for passengers wishing to work on laptops, plug in dvd players, etc.

Passenger transportation services bring in many tourists and help increase the tourism exposure of the region. As many as 75% to 85% of tourists visiting some areas in Northeastern Ontario are coming because of the availability of Ontario Northland services. Since tourism accounts for a large share of employment in many communities, Ontario Northland can be seen as indirectly supporting these communities.

- **Improvements in Customer Service**

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

- **Increase in Polar Bear Express Ridership**

  Ridership on the Polar Bear Express increased by 4.5% over 2008-2009. Increased service levels and an improvement to the area economy are cited as factors contributing to this increase.

Bus Parcel Express (BPX) allows local residents and businesses to send packages in a timely and cost efficient manner. BPX rates are significantly lower than any other delivery/courier option and, in many instances, provide a faster transportation option.

- **Renewal of Passenger Equipment**

  Our Rail Services Division is in the midst of refurbishing one of our passenger coaches. This refurbished coach will serve as a prototype for future work as we are developing a proposal to renew our entire fleet of passenger coaches, through refurbishment and the purchase of new equipment. These upgrades are being made with accessibility and passenger comfort in mind.

- **Partnering For Economic Development**

  We are committed to partnerships that support economic development and prosperity in the North. Some of the recent initiatives in which we have partnered with community and business representatives include:

  Bike Train

  In the summer of 2009, Ontario Northland, in partnership with Transportation Options and community partners, introduced the Bike Train to the North. The Bike Train initiative introduces bike racks on board select passenger rail trains to destinations across Ontario, making cycling holidays easy and accessible. This pilot initiative, which brought cycling tourists from Toronto to North Bay, was highly successful and creates a new tourist market for the region.

  International Plowing Match

  In the fall of 2009, we partnered with the organizers of the International Plowing Match (IPM) to provide transportation solutions to the tens of thousands of visitors attending the event in Earlton. In order to meet the accommodation needs of such a large event, many attendees stayed at North Bay and Cochrane facilities and were able to commute on a train that had been chartered by the IPM.

- **Santa Claus Express**

  More than 2,500 children from 16 Northeastern Ontario and Northwestern Quebec communities enjoyed their ride to the North Pole and visit with Santa Claus on Ontario Northland's Santa Claus Express. The train, which has operated in northern communities for more than 25 years, was once again the result of a unique and successful partnership between Ontario Northland, its employees and many community volunteers.

The IBI Group, in its July 2009 report "Rail Division Sustainability Plan", indicated that "annual traffic on the Northlander of 35,000 passengers is excellent under the circumstances", after comparing population base, train frequency and train speeds of the Northlander versus the VIA Rail Ottawa-Montreal corridor. "Generating some 35,000 annual passenger trips out of a total market base population of 200,000 (north of Toronto) is an acceptable performance in terms of indicating support of the service by actually using it."

- **Accessibility for Ontarians with Disabilities Act**

  In fulfilling our mission of "Connected communities; a prosperous north", Ontario Northland strives at all times to provide its goods and services in a way that respects the dignity and independence of people with disabilities. We took on a leadership role in ensuring that our operations were compliant with Accessibility Standards for Customer Service Regulations, which came into effect on January 1, 2010.

- **Passenger Station Upgrades**

  We undertook several projects to upgrade our passenger stations. Construction on the Moosonee Station and Cochrane Station Restaurant were completed in 2009-2010 to improve customer service and comfort.

- **On-Time Performance**

  We continue to maintain a high level of on-time performance in our Motor Coach Services Department. This contributes to high customer satisfaction as we are able to provide a convenient and reliable service. The on-time performance of our passenger trains improved significantly this fiscal year, as the result of a variety of factors and efforts.

Challenges

The Company's transportation solutions are heavily used by not only students who reside in the North but also, by students from outside the region who attend institutions located in Northeastern Ontario.

- **Decrease in Ridership on Northlander and Motor Coach** Ridership on our Northlander train decreased by 7.7% and traffic on our Motor Coaches decreased by 12.6% in 2009-2010. Lower ridership has been attributed to the slower economy in Northeastern Ontario.

- **Rail Passenger Equipment**

  Our passenger rail equipment is ageing. This equipment requires refurbishment in order to improve the comfort level of our passengers, enhance accessibility and make additional upgrades. Our Long Term Sustainability Plan addresses our requirements for the renewal (refurbishment) and/or replacement of both conventional and unilevel passenger equipment.

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

  Ontario Northland serves a network of small communities in Northeastern Ontario with low population densities. Many of the trips to these communities are not profitable. The Province of Ontario does not currently subsidize intercity motor coach travel north of Barrie Ontario. Several intercity routes in Southern Ontario are subsidized through GO Transit.

- **Canadian Motor Coach Industry**

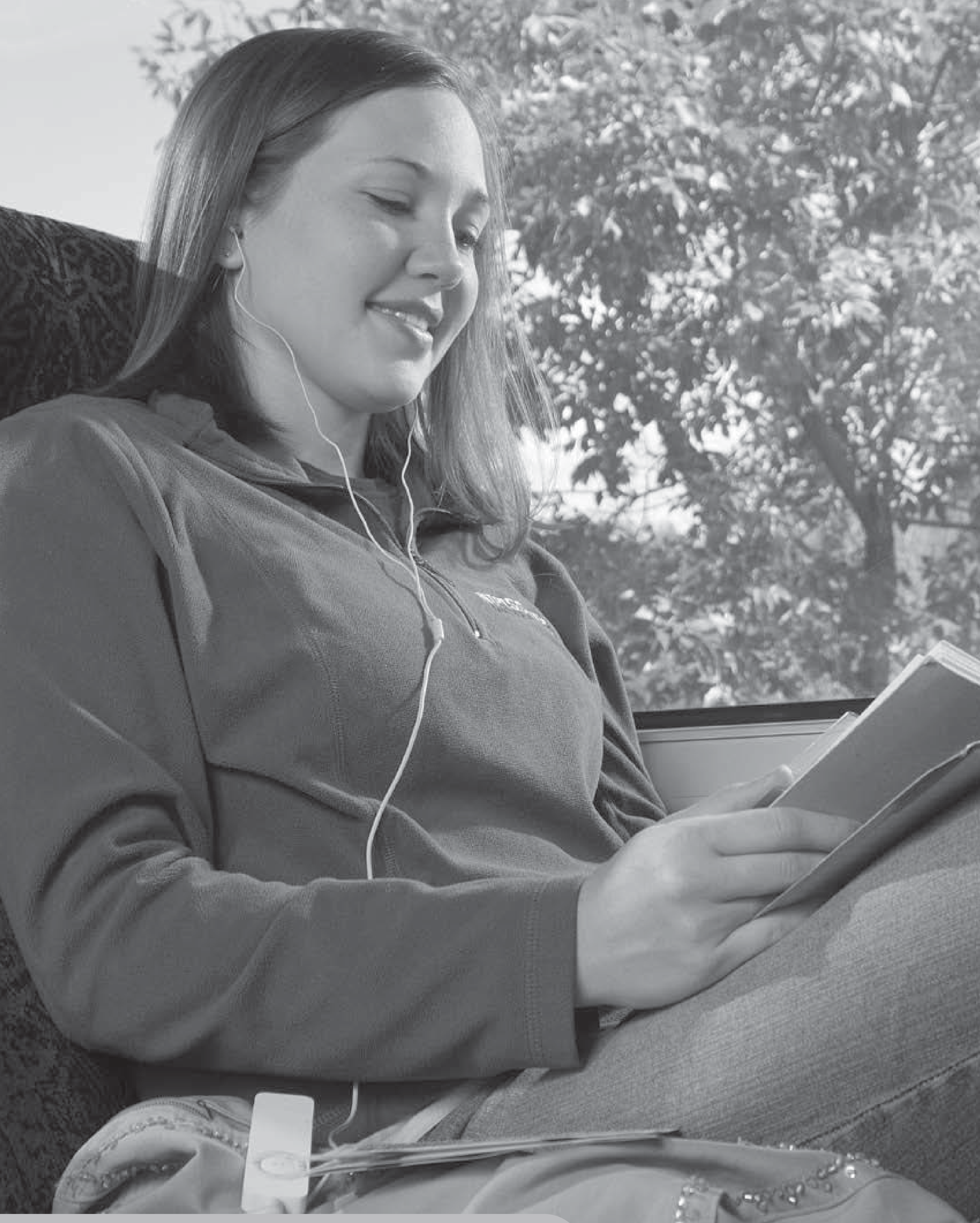
  At the time of writing this report, Greyhound Canada has announced that without financial relief, it plans to reduce service to several rural communities across the country. This includes the cancellation of some service in Northwestern Ontario. These developments will have significant ramifications on Ontario Northland, both in the short and long terms. Until the various governments involved establish their final positions, there remains considerable uncertainty within the industry.

  If Greyhound abandons these Northwestern Ontario routes, a negative impact on revenues will result. Ontario Northland's ridership and parcel volume will decrease as connections to cities outside of our operating territory become less convenient. Longer wait times and fewer schedule options will result in passengers continuing to seek alternative means of transportation.

  All of this is taking place at a time when fuel costs and environmental issues will likely result in steps being taken by the government to encourage the use of public transportation. Without a holistic plan to ensure the continuity of transportation options, Northern Ontario will find itself in a disadvantaged position in terms of public transportation.

- **Information Systems**

  Passenger Services is in need of improved IT 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.



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

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

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.

Rail freight services play an extremely important role in the regional economy by providing competitive, well priced transportation options for many companies' products, thus improving their economic viability. Rail freight services are particularly important in industries such as mining, forestry, sawmill, and wood products manufacturing. In 2005, Ontario Northland transported goods valued at nearly $2.2 billion. In the absence of rail transportation services, it can be reasonably assumed that this generation of wealth within Northeastern Ontario would be substantially reduced.

Passenger Trains

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

Specific benefits of rail freight transportation services include: access to more markets; possibility to remain competitive in more markets; reduction in direct costs; and rationalization of logistics and plant operations.

Freight Services

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

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

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

We pride ourselves on the fact that we provide businesses in the region with a Green shipping alternative. Research has shown that the shipment of freight by rail is over three times more fuel efficient and nine times more cost efficient than by truck.[2] Also, a rail car can carry the equivalent of three transport truck loads.[3] The social cost component of freight shipment (which includes accident and environmental impact) is over five times higher for truck compared to rail.[4]

[2] *Association of American Railroads, "Railroads: Building a Cleaner Environment", May 2008.*

[3] *CN, "Did you know that you can fit three truckloads into one railcar? This means cost-savings for you any way you look at it. This also means that for the long-haul, rail is the most economical, efficient and environmentally friendly transportation choice", www.cn.ca.*

[4] *Transport Canada, "Estimates of the Full Cost of Transportation in Canada", Page 23.*

Accomplishments

- **Supporting Northern Ontario Businesses**

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

A large share of employment in many Northeastern Ontario communities 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.

- **Passenger Equipment**

  We are looking at our options for the refurbishment and/or replacement of our ageing passenger equipment, as we strive to meet the needs and expectations of our customers.

- **On-Time Performance**

  The on-time performance of our 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, we invest in our rail infrastructure to ensure its safety and integrity. In the current fiscal year, we have enhanced our efforts and have invested: $4.75 million for 15.2 miles of new and relay rail; $3.2 million for 27,500 new railway ties; and $3.22 million in surfacing, installing anchors and upgrading joints. In addition, we continue to focus on our bridges and culverts.

- **Moose River Bridge**

  Over the last two years, we have invested significantly to upgrade our 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 our 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 our rigid policies, which have been designed with safety in mind and which require regular inspections to be performed by qualified bridge inspection personnel.

Transportation connectivity improves the regional economic wellbeing; communities that are linked to Ontario Northland rail services tend to have higher average earnings than most other communities in Northeastern Ontario.

- **Apprenticeship Opportunities**

  Skilled trades people are essential to the success of Ontario Northland. We recognize the value of apprenticeship programs and regularly work with the Ministry of Training Colleges and Universities (MTCU), along with community organizations, to promote apprenticeships and the skilled trades. Ontario Northland, which has offered apprenticeship training opportunities for more than 50 years, currently employs 38 apprentices who work in North Bay (29), Cochrane (8) and Hearst (1).

- **Rail Safety**

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

Ontario Northland offers increased competition in Northeastern Ontario, for example by connecting clients to both CN and CP's rail service and by providing telecommunications options.

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, we are highly susceptible to the booms and slumps of our customers, who are predominantly rooted in resource extraction industries. In addition, there are few opportunities to expand our customer base.

- **Downturn in Forestry and Mining Sectors**

  The economic downturn in the forestry and mining sectors has resulted in a considerable reduction in our rail freight traffic. Several forestry-based clients have either terminated, suspended or greatly reduced operations within their mills, which has negatively affected our 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 our bottom line and represent a significant portion of our growing operating expenses. Although an ancillary fuel charge is applied to our rates in order to offset these increases, we are cognizant that such fees may result in the possible curtailment of some of our freight shipments.

- **Capital Investment Requirements**

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

- **Equipment**

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

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

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

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

The Company has, in recent years, diversified its operations with the establishment of a Refurbishment Division. This has brought new jobs, including apprenticeship opportunities, to the Company and region, diversified its revenue base, and demonstrated that manufacturing operations can thrive in Northern Ontario.

Accomplishments

- **85 Cars Successfully Delivered**

  As of March 31, 2010, 85 completely refurbished commuter cars had been successfully delivered to GO Transit. We have now completed more than 70% of our current contract to refurbish 121 GO Transit commuter cars for $86 million. GO Transit representatives have been quoted saying that "the quality of the cars being refurbished by Ontario Northland is top notch and that the cars are absolutely stunning. This is a direct result of the pride that Ontario Northland employees put into their work. "The cars being delivered are of exceptional quality." We expect to deliver the final car in the fall of 2011.

- **Introduction of Lean Manufacturing**

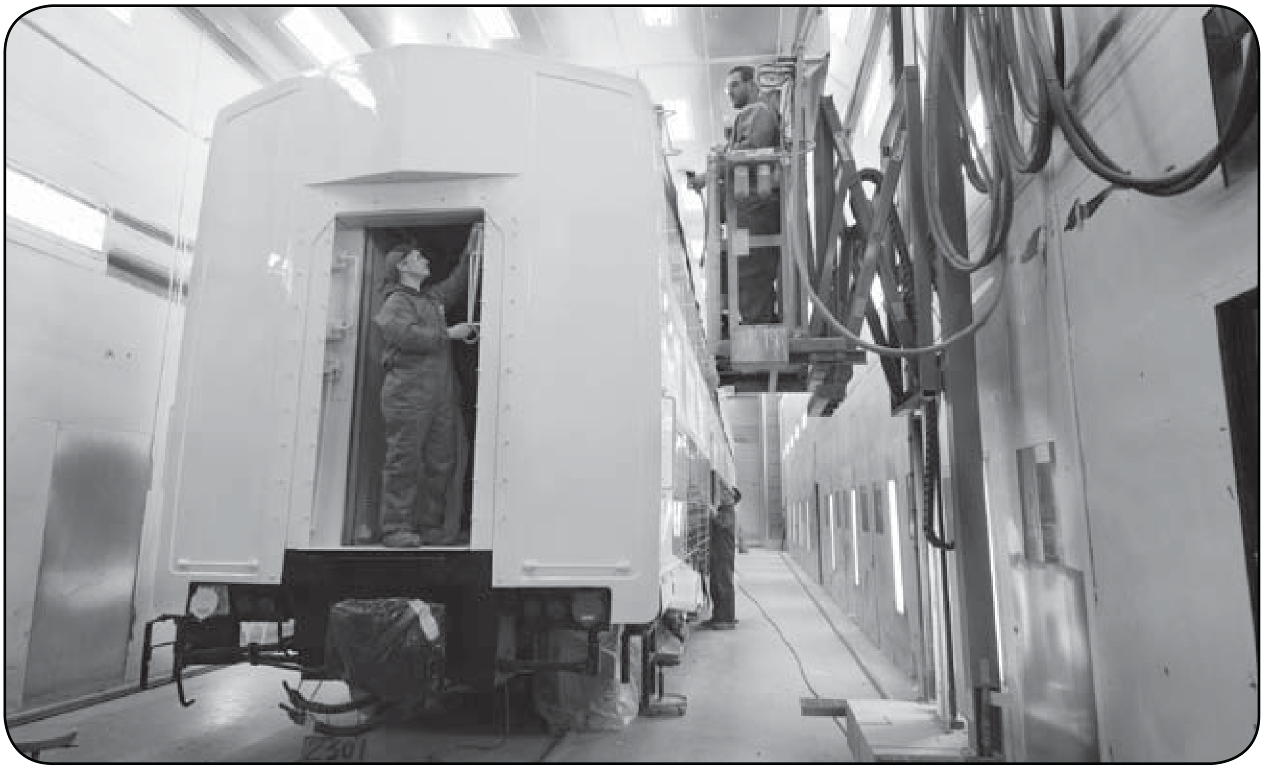
  Our Refurbishment Division is currently working to implement Lean Manufacturing, which is a Japanese process management philosophy that considers the expenditure of resources for any goal other than the creation of value for the end customer to be wasteful. This is achieved in by focusing on three key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

  We are implementing Lean in order to identify opportunities to reduce inefficiencies and enable a culture of continuous improvement as we work to better position ourselves to secure future refurbishment contracts.

- **Renegotiated Work Rules**

  Union and management representatives have created a Memorandum of Understanding that provides greater labour flexibility to better facilitate our work within the Division. This flexibility is the essential foundation to successfully creating a Lean refurbishment operation. Key changes provided by this MOU include:

  - The creation of a separation between employees working in Refurbishment and Rail – Mechanical;
  - Broader job descriptions for Refurbishment employees that provide for greater flexibility in the range of employees responsibilities and their ability to assist one another.



Challenges

- **Achieving Profitability**

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

- **Competition to Win Future Contracts**

  We expect significant competition as we bid on future refurbishment contracts. For this reason, we must improve our operations to ensure our ability to be successful.

- **Change**

  While change is exciting, it can also be intimidating and unnerving for those affected by it. We are committed to engaging employees and their leaders in our change process and the implementation of Lean Manufacturing in order to ensure the success of our collaborative efforts.

Ontario Northland's operations and presence in the North help to convey a message that Northern Ontario has sustainable industry and skilled trades. Many communities in Northeastern Ontario refer to Ontario Northland and its services in promotional packages to attract new business investment and residents.

Ontario Northland sustained a loss for the year ended March 31, 2010 in the amount of $25.8 million, compared to a loss of $14.7 million for the preceding fiscal period.

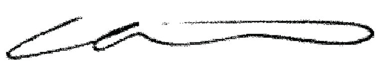
Total revenues increased by a little less than $2 million year over year. Declines in Rail Services commercial rail revenue of $7.0 million were offset by one time increase in government reimbursement of $6.8 million. A decline in Motor Coach sales revenue of $700K along with increases in Ontera and Refurbishment of $1.3 million and $1.4 million, respectively, contributed to the overall increase.

Rail revenues declined as a result of continued weak demand in the forestry and mining sectors along with numerous closures and shutdowns of customer facilities. The Motor Coach revenue decline is a continuation of weak demand for transportation services that had begun in the prior fiscal period. Refurbishment increased production levels over prior years and Ontera revenues increased with strength in carrier services offsetting weakness in voice service products.

Total operating expenses decreased by $4.8 million over the prior year with Rail Services costs declining $7.2 million with expense curtailments as a response to declining revenues. Offsetting this decline were increases in Refurbishment and Ontera with expenses tracking in line with higher production and revenue levels. Operating expenses in the other operating division were relatively minor and remained relatively constant.

Non-operating expenses increased year over year by $17.7 million primarily as a result of increased pension accounting expenses, a sales tax assessment which was incurred during the year and the write down of intangible assets. The dramatic increase in pension accounting expenses during the year are attributable primarily to declining asset values for the pension fund experienced during 2008-2009, along with declining discount rates experienced during the current fiscal period.

On the balance sheet, total assets remained relatively constant with increases in Property, Plant and Equipment being offset by declines in the Accrued Pension Benefit Asset and the write down of Intangible Assets. Total liabilities increased $26 million with increases in deferred contributions related to property, plant and equipment, long term debt and the accrued non pension benefit obligation all contributing. This increase was offset by the decline in retained earnings as 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 financial statements necessarily involves the use of management's judgment and best estimates, particularly when transactions affecting the current accounting period cannot be determined with certainty until future periods. All financial information in the annual report is consistent with the consolidated financial statements.

The Commission maintains systems of internal accounting controls designed to provide reasonable assurance that the financial information is accurate and reliable and that company assets and liabilities are adequately accounted for and assets safeguarded.

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

T. Hargreaves
Chair

P. Goulet
Acting President and CEO

North Bay, Ontario
May 28, 2010

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

Auditor's Report

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

I have audited the consolidated balance sheet of the Ontario Northland Transportation Commission as at March 31, 2010 and the consolidated statements of investment by the Province of Ontario, operations and retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these consolidated financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
May 29, 2010

Jim McCarter, CA
Auditor General
Licensed Public Accountant

Consolidated Balance Sheet

(dollars in thousands)

	March 31 2010	March 31 2009
Assets		
Current		
Cash and cash equivalents (Note 5)	**$ 4,823**	$ 7,471
Accounts receivable (Net of allowance - $3,677; 2009 - $3,172)	**18,468**	17,156
Inventory	**18,319**	17,624
Prepaid expenses	**1,348**	1,164
	42,958	43,415
Intangible assets (Note 6)	**-**	4,584
Investment in property, plant and equipment (Schedule 1)	**297,381**	280,271
Accrued pension benefit asset (Note 9a)	**58,650**	70,475
	$ 398,989	$ 398,745
Liabilities and Province of Ontario Equity		
Current		
Operating line of credit (Note 7)	**$ 12,925**	$ 11,870
Accounts payable and accrued liabilities	**29,383**	28,565
Current portion of long-term debt (Note 10a)	**4,383**	5,806
Current portion of capital lease obligations (Note 10b)	**11**	72
Current portion of deferred revenue	**616**	806
	47,318	47,119
Deferred revenue (Note 11)	**828**	897
Deferred contributions related to property, plant and equipment (Note 8)	**89,078**	66,800
Long-term debt (Note 10a)	**34,369**	33,172
Capital lease obligations (Note 10b)	**24**	35
Accrued Non-Pension Benefit Obligation (Note 9b)	**64,232**	61,821
	235,849	209,844
Contingencies (Note 16) / **Commitments** (Note 17)		
Equity		
Retained Earnings	**158,645**	184,413
Reserve for Self Insurance	**4,495**	4,488
	163,140	188,901
	$ 398,989	$ 398,745

Approved on behalf of the Commission:

Chair

Acting President and CEO

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

(dollars in thousands)

	March 31 2010	March 31 2009 (restated Note 3)
Retained Earnings		
Balance, beginning of year	**$ 97,787**	$ 112,729
Prior year's restatement (Note 3c)	**86,626**	86,626
Balance, beginning of year as restated	**184,413**	199,355
Net loss for the year	**(25,761)**	(14,742)
Net transfer to Reserve for Self Insurance	**(7)**	(200)
Balance, end of year	**$ 158,645**	$ 184,413

	March 31 2010	March 31 2009 (restated Note 3)
Reserve for Self Insurance (Note 14)		
Balance, beginning of year	**$ 4,488**	$ 4,288
Transfers (to) from Retained Earnings		
Interest earned	**23**	100
Annual premium	**100**	100
Claims	**(116)**	-
	7	200
Balance, end of year	**$ 4,495**	$ 4,488

Total Retained Earnings and Reserve for Self Insurance	**$ 163,140**	$ 188,901

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

Consolidated Statement of Operations

(dollars in thousands)

For the year ended March 31	2010	2009 (restated Note 3)
Revenues (Schedule 2)	**$ 144,924**	$ 142,982
Expenses (Schedule 2)	**133,759**	138,548
Income from operations, before other revenues and expenses	**11,165**	4,434
Other revenues and expenses		
Amortization (Schedule 2)	**14,673**	14,283
Amortization of deferred contributions related to property, plant and equipment (Note 8)	**(2,321)**	(2,301)
Write down of intangible assets (Note 6)	**4,039**	-
Pension expense (Schedule 2 and Note 9)	**16,415**	5,946
Sales tax assessment	**1,556**	-
Interest expense (Schedule 2)	**2,063**	2,104
Investment and other income	**(5)**	(3)
Investment income on Reserve for Self Insurance (Note 14)	**(23)**	(100)
Claims on Reserve for Self Insurance (Note 14)	**116**	-
Loss (gain) on sale of property, plant and equipment (Schedule 2)	**413**	(753)
Net expenses	**36,926**	19,176
Net loss for the period	**(25,761)**	(14,742)

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

(dollars in thousands)

For the year ended March 31	2010	2009 (restated Note 3)
Cash provided by (used in)		
Operating activities		
Loss	**$ (25,761)**	$ (14,742)
Items not affecting cash		
Amortization (Schedule 2)	**14,673**	14,283
Amortization of deferred contributions related to property, plant and equipment (Note 8)	**(2,321)**	(2,301)
Loss (gain) on disposal of property, plant and equipment	**413**	(753)
Writedown of intangible assets	**4,039**	-
Amortization of intangible assets	**545**	594
Deferred revenue	**64**	122
Pension expense (Note 9)	**16,415**	5,946
	8,067	3,149
Changes in non-cash working capital balances		
Accounts receivable	**(1,312)**	1,820
Inventory	**(695)**	376
Prepaid expenses	**(184)**	204
Accounts payable and accrued liabilities	**818**	2,786
Deferred revenue	**(323)**	(2,080)
	6,371	5,847
Investing activities		
Investment in property, plant and equipment	**(32,935)**	(30,809)
Proceeds from sale of property, plant and equipment	**739**	753
Funding contribution to accrued pension benefit asset	**(148)**	(191)
	(32,344)	(30,247)
Financing activities		
Operating lines of credit	**1,055**	(3,130)
Long-term debt (Note10a)	**(226)**	5,287
Capital lease obligations (Note 10b)	**(72)**	(195)
Deferred contributions related to property, plant and equipment	**24,599**	23,573
Funding contribution to accrued non-pension benefit obligation	**2,031**	(2,419)
	23,325	23,116
Change in cash and cash equivalents during the year	**(2,648)**	(1,284)
Cash and cash equivalents, beginning of year	**7,471**	8,755
Cash and cash equivalents, end of year	**$ 4,823**	$ 7,471
Supplemental disclosure of cash flow information:		
Interest paid during the year and included in net loss	**$ 2,063**	$ 2,104

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

Consolidated Schedule of Investment in Property, Plant and Equipment

Schedule 1

(dollars in thousands)

For the year ended March 31			**2010**	2009
	Cost	**Accumulated Amortization**	**Net Book Value**	**Net Book Value**
Rail Services				
Roadway	$ 275,388	$ 113,745	**$ 161,643**	$ 150,255
Buildings	42,315	18,279	**24,036**	24,247
Equipment	75,857	48,469	**27,388**	29,029
Equipment under capital lease	1,022	198	**824**	874
Under construction	17,035	-	**17,035**	11,482
Telecommunications (Ontera)				
Equipment	154,970	116,250	**38,720**	39,031
Buildings	6,552	4,062	**2,490**	1,765
Under construction	11,481	-	**11,481**	10,298
Motor Coach Services				
Coaches	8,589	5,448	**3,141**	3,800
Buildings	2,796	201	**2,595**	2,548
Refurbishment				
Equipment	585	85	**500**	521
Buildings	3,407	346	**3,061**	3,024
Marine Services (Moosonee)				
Vessels	385	365	**20**	28
Under construction	2,908	-	**2,908**	1,794
Development				
Land and buildings	2,851	1,312	**1,539**	1,575
	$ 606,141	$ 308,760	**$ 297,381**	$ 280,271

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

Consolidated Schedule of Operating Revenues and Expenses

Schedule 2

(dollars in thousands)

For the year ended March 31	2010	2009 (restated Note 3)
Rail Services		
Sales revenue (Notes 15 and 21)	**$ 53,415**	$ 60,155
Government reimbursement (Note 12)	**30,459**	23,760
Operating revenue	**83,874**	83,915
Operating expense	**70,029**	77,293
Operating income	**13,845**	6,622
Amortization	**8,899**	8,819
Amortization of deferred contributions related to property, plant and equipment (Note 8)	**(1,439)**	(1,160)
Pension expense (Note 9)	**9,647**	3,498
Loss (gain) on sale of property, plant and equipment	**262**	(615)
Interest expense	**925**	957
Loss from operations	**(4,449)**	(4,877)
Telecommunications (Ontera)		
Sales revenue (Note 13)	**32,662**	31,365
Operating expense	**26,862**	26,641
Operating income	**5,800**	4,724
Amortization	**4,969**	4,520
Amortization of deferred contributions related to property, plant and equipment (Note 8)	(882)	(1,141)
Pension expense (Note 9)	2,660	1,015
Sales tax assessment	1,556	-
Interest expense	667	464
Loss from operations	**(3,170)**	(134)
Motor Coach Services		
Sales revenue	**10,583**	11,313
Operating expense	**10,429**	10,641
Operating income	**154**	672
Amortization	**542**	589
Pension expense (Note 9)	**1,047**	378
Loss on sale of property, plant and equipment	**170**	-
Interest expense	**111**	106
Loss from operations	**(1,716)**	(401)
Refurbishment		
Sales revenue	**17,089**	15,708
Operating expense	**18,249**	17,025
Operating loss	**(1,160)**	(1,317)
Amortization	**85**	85
Write down of intangible assets (Note 6)	**4,039**	-
Pension expense (Note 9)	**1,708**	653
Interest expense	**250**	311
Loss from operations	**(7,242)**	(2,366)

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

Consolidated Schedule of Operating Revenues and Expenses

Schedule 2 (continued)

(dollars in thousands)

For the year ended March 31	2010	2009 (restated Note 3)
Marine Services (Moosonee)		
Sales revenue	**156**	129
Government reimbursement (Note 12)	**41**	40
Operating revenue	**197**	169
Operating expense	**182**	205
Income (loss) from operations	**15**	(36)
Rental Properties		
Sales revenue	**519**	512
Operating expense	**362**	323
Operating income	**157**	189
Amortization	**37**	37
Gain on sale of property, plant and equipment	**(19)**	(138)
Income from operations	**139**	290
Administration		
Operating revenue	**-**	-
Operating expense	**7,646**	6,420
Operating loss	**(7,646)**	(6,420)
Amortization	**141**	233
Pension expense (Note 9)	**1,353**	402
Interest expense	**110**	266
Loss from operations	**(9,250)**	(7,321)
Total Operations		
Sales revenue	**114,424**	119,182
Government reimbursement (Note 12)	**30,500**	23,800
Total revenues	**144,924**	142,982
Expenses	**133,759**	138,548
Income from operations	**11,165**	4,434
Amortization	**14,673**	14,283
Amortization of deferred contributions related to property, plant and equipment (Note 8)	**(2,321)**	(2,301)
Write down of intangible assets (Note 6)	**4,039**	-
Pension expense (Note 9)	**16,415**	5,946
Sales tax assessment	**1,556**	-
Interest expense	**2,063**	2,104
Loss (gain) on sale of property, plant and equipment	**413**	(753)
Loss from operations	**$ (25,673)**	$ (14,845)

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

March 31, 2010

1. Nature of Business

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

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), Air-Dale Limited and Nipissing Central Railway Company.

Inventory

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

Investment in Property, Plant and Equipment

Property, plant and equipment are stated at acquisition cost. Amortization is calculated using the straight-line method over the estimated service lives of the assets.

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

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

Deferred contributions related to Property, Plant and Equipment

The Province of Ontario reimburses the Commission for the cost of certain property, plant and equipment purchased for use in operations. The Commission records these assets at their original cost together with an offsetting credit to Deferred contributions related to property, plant and equipment. Deferred contributions related to property, plant and equipment are recognized as revenue on the same basis as the amortization of the related assets (see Note 8).

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

March 31, 2010

2. Significant Accounting Policies (continued)

Employee Future Benefits

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

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

Both Pension and Non-Pension expenses consist of current service costs, interest and adjustments arising from plan amendments, changes in assumptions and net actuarial gains or losses. Net actuarial gains or losses are amortized on a straight-line basis over the expected average remaining service life of the employees covered by the plans. These expenses are recorded in the year in which employees render services to the Commission (See Note 9).

Intangible Assets

Intangible assets represent the value attributed to the development (internally generated) of new processes for a new line of business (Refurbishment) in 2006. Intangible assets that meet generally accepted criteria, including reasonable assurance regarding future benefits, are deferred and amortized based on the total number of units to be refurbished over the life of the expected benefit.

Revenue Recognition

Transportation revenues are generally recognized on completion of movements, with interline movements being treated as complete when the shipment is turned over to the connecting carrier. Contract revenues are generally recorded on a percentage of completion basis. Revenues from other sources including Government reimbursement are recognized when earned. Telecommunications toll revenue adjustments are recognized when measurement can be reasonably estimated (see Note 13).

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.

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

2. Significant Accounting Policies (continued)

Foreign Currency Translation

Revenues and expenses arising from foreign currency transactions are translated to their Canadian equivalent at the rates of exchange in effect at the transaction date. Resulting gains or losses on settlement or translation are included in the determination of net income for the current year. Included in Rail revenue is a foreign currency gain of $ 853,000 (2009 - $1,258,000) arising mainly from Rail traffic settlements between Canada and the U.S.A.

Accounting Estimates

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the useful lives of assets for amortization. By their nature, these estimates are subject to measurement uncertainty. The effect of changes in such estimates on the financial statements in future periods could be significant. Accounts specifically affected by estimates in the financial statements are property, plant and equipment, deferred contributions related to property, plant and equipment, accrued pension benefit asset, accrued liabilities and non-pension benefit obligation.

Cash and Cash Equivalents

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

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 earnings.

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

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

The Commission uses the following classifications:
- Cash and cash equivalents are classified as held-for-trading.
- Accounts receivables are classified as loans and receivables.
- Accounts payable and accrued liabilities, operating lines of credit, long-term debt and capital lease obligations are classified as other liabilities.

March 31, 2010

2. Significant Accounting Policies (continued)

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.

3. Changes in Accounting Policies

a) Deferred Contributions related to property, plant and equipment

In prior years, deferred contributions related to property, plant and equipment were presented as a Net Investments in property, plant and equipment in the Consolidated Statement of Investment by the Province of Ontario. The Commission has adopted a new policy to present the capital contribution as deferred contributions related to property, plant and equipment.

Deferred contributions related to property, plant and equipment represent the unamortized capital subsidies received from Ministry of Northern Development, Mines and Forestry to fund acquisitions of property, plant and equipment. Deferred contributions are recognized as revenue in the consolidated statement of operations on the same basis as the amortization of the related assets.

This adjustment has been recorded retroactively and accordingly, the comparative financial statements have been restated as follows:

	2010	2009
Decrease in opening balance Investment by the Province of Ontario Net investment in property, plant and equipment	**$ 66,800**	$ 45,576
Decrease in ending balance Investment by the Province of Ontario Net investment in property, plant and equipment	**$ -**	$ 66,800
Increase in opening balance deferred contributions related to property, plant and equipment	**$ (66,800)**	(45,576)
Increase in ending balance deferred contributions related to property, plant and equipment	**$ -**	(66,800)
Increase in amortization of deferred contributions related to property, plant and equipment	**$ -**	(2,301)
Increase in amortization	**$ -**	2,301

b) Reserve for Self Insurance

In prior years, the Reserve for Self Insurance was presented as an asset and as a Provision for Self Insurance on the Consolidated Balance Sheet. In accordance to generally accepted accounting principles, this reserve is now presented as restricted cash under cash and cash equivalents and provision of Reserve for Self Insurance in retained earnings.

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

3. Changes in Accounting Policies (continued)

Reserve for Self Insurance (continued)

This adjustment has been recorded retroactively and accordingly, the comparative financial statements have been restated as follows:

	2010	2009
Decrease in opening balance Reserve for Self Insurance (asset)	**$ (4,488)**	$ (4,288)
Decrease in ending balance Reserve for Self Insurance (asset)	**$ -**	$ (4,488)
Increase in opening balance cash and cash equivalents	**$ 4,488**	4,288
Increase in ending balance cash and cash equivalents	**$ -**	4,488
Increase in opening balance Reserve for Self Insurance	**$ (4,488)**	(4,288)
Increase in ending balance Reserve for Self Insurance	**$ -**	(4,488)
Decrease in opening balance Provision for Self Insurance	**$ 4,488**	4,288
Decrease in ending balance Provision for Self Insurance	**$ -**	4,488
Decrease in Rail expense	**$ -**	(100)
Increase in Investment income on Reserve for Self Insurance	**$ -**	(100)
Increase in transfer to Reserve for Self Insurance	**$ -**	200

c) Net investment other than share capital

Due to the change in policy for Deferred contributions related to property, plant and equipment and the related change in the presentation in the financial statements, the remaining investment by the Province of Ontario, referred to as Net investment other than share capital, has been reclassified as retained earnings. This change has been applied retroactively through retained earnings.

This adjustment has been recorded retroactively and accordingly, the comparative financial statements have been restated as follows:

	2010	2009
Decrease in opening balance Net Investment other than share capital	**$ 86,626**	$ 86,626
Decrease in closing balance Net Investment other than share capital	**$ -**	$ 86,626
Increase in opening balance Retained Earnings	**$ (86,626)**	(86,626)
Increase in ending balance Retained Earnings	**$ -**	(86,626)

March 31, 2010

4. Future Accounting Changes

Financial statement standards:

The Province has identified the Commission as an Other Government Organization for financial statement purposes. Due to the uncertainty as to the upcoming changes to International Financial Reporting Standards (IFRS) and Public Sector Accounting Board (PSAB) standards, it has yet to be determined by the Province whether the Commission will adopt IFRS or PSAB for its financial statement presentation.

Business combinations:

This section replaces the former Section 1581 "Business combinations" and provides the Canadian equivalent to IFRS 3 "Business Combinations" (January 2008). The new standard requires the acquiring entity in a business combination to recognize most of the assets acquired and liabilities assumed in the transaction at fair value including contingent assets and liabilities and to recognize and measure the goodwill or gain from a bargain purchase acquired in the business combination. Acquisition-related costs are also to be expensed. This standard is effective in fiscal 2011 and is not expected to have a significant impact on the Commission's financial statements.

Consolidated financial statements, Section 1601 and Non-controlling interests, Section 1602:

These two sections replace Section 1600 "Consolidated financial statements". Section 1601 "Consolidated financial statements" carries forward guidance from Section 1600 "Consolidated financial statements" with the exception of non-controlling interests which are addressed in a separate section. Section 1602 "Non-controlling interests", requires the Commission to report non-controlling interests within equity, separately from the equity of the owners of the parent, and transactions between an entity and non-controlling interests as equity transactions. This standard is effective in fiscal 2011 and is not expected to have a significant impact on the Commission's financial statements.

5. Cash and cash equivalents

	2010	2009
Cash	**$ 328,000**	$ 2,983,000
Cash related to Reserve for Self Insurance (Note 14)	**4,495,000**	4,488,000
Cash and cash equivalents	**$ 4,823,000**	$ 7,471,000

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

March 31, 2010

6. Intangible Assets

	2010	2009
Balance - beginning of year	**$ 4,584,000**	$ 5,178,000
Amortization	**(545,000)**	(594,000)
Write down of intangible assets	**(4,039,000)**	-
Balance - end of year	**$ -**	$ 4,584,000

Intangible assets represent the unamortized portion of the development costs for the transit car refurbishment program. These costs have been written down in the current fiscal year as the benefits they provide are not anticipated to extend beyond the end of the current contract which is expected to be completed in fiscal 2011.

7. 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, 2010 (2009 - $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 $4,925,000 was being utilized as at March 31, 2010 (2009 - $3,870,000) 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, 2010, two letters of guarantee totalling $1,428,000 (2009 - $ 1,428,000) have been issued with an annual renewal commission of 0.375%.

8. Deferred contributions related to property, plant and equipment

Deferred contributions related to property, plant and equipment represent the unamortized capital subsidies received from 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 accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

March 31, 2010

8. Deferred contributions related to property, plant and equipment (continued)

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

	2010	2009 (restated Note 3)
Balance - beginning of year	**$ 66,800,000**	$ 45,576,000
Contributions from the Province	**24,599,000**	23,573,000
Retirements	**-**	(48,000)
Amortization to revenue	**(2,321,000)**	(2,301,000)
Balance - end of year	**$ 89,078,000**	$ 66,800,000

9. 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 obligations under the plan are determined using the accrued benefit method reflecting projected benefits for services rendered to date. Pension fund assets are valued using current market values. The Accrued Pension Benefit Asset or Obligation and expenses are determined annually by independent actuaries in accordance with accepted actuarial practices and Canadian Generally Accepted Accounting Standards using management's best estimates. The date of the last actuarial valuation for funding purposes was January 1, 2007. The subsequent actuarial valuation for funding purposes as at January 1, 2010 is expected to be received later in fiscal 2010-2011 and therefore is not reflected in the financial statements.

The pension fund's target percentage allocation and average asset allocations as at March 31, 2010 and March 31, 2009, by asset category are as follows:

	Target	2010	2009
Equity securities – Domestic	20% - 30%	**23.4%**	19.7%
– Foreign	10% - 30%	**17.5%**	17.4%
Debt securities	35% - 55%	**55.9%**	60.5%
Real estate	0% - 15%	**1.9%**	1.6%
Short term and other	0% - 15%	**1.3%**	0.8%
Total		**100%**	100%

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

9. Employee Future Benefits (continued)

a. Reconciliation of accrued benefit asset to accrued benefit liability

	Pension	SERP	2010	2009
Accrued benefit obligation – end of year	**$(505,152,000)**	**$(2,398,000)**	**$ (507,550,000)**	$ (418,799,000)
Plan assets at fair value – end of year	**422,865,000**	**-**	**422,865,000**	409,139,000
Funded status – plan (deficit) surplus	**(82,287,000)**	**(2,398,000)**	**(84,685,000)**	(9,660,000)
Unamortized initial liability	**-**	**392,000**	**392,000**	590,000
Unamortized past service costs	**12,516,000**	**70,000**	**12,586,000**	14,477,000
Unamortized net actuarial (gain) loss	**131,165,000**	**(808,000)**	**130,357,000**	65,068,000
Accrued benefit asset (liability) net of valuation allowance – end of year	**$ 61,394,000**	**$(2,744,000)**	**$ 58,650,000**	$ 70,475,000

	Pension	SERP	2010	2009
Accrued benefit asset – beginning of year	**$ 73,011,000**	**$(2,536,000)**	**$ 70,475,000**	$ 73,167,000
Expense	**(11,617,000)**	**(356,000)**	**(11,973,000)**	(2,883,000)
Funding contributions (by employees)	**-**	**148,000**	**148,000**	191,000
Accrued benefit asset – end of year	**$ 61,394,000**	**$(2,744,000)**	**$ 58,650,000**	$ 70,475,000

b. Accrued Non-Pension Benefit Obligation

	2010	2009
Accrued benefit obligation - beginning of year	**$ (61,821,000)**	$ (55,839,000)
Unamortized net actuarial (gain)	**(2,411,000)**	(5,982,000)
Accrued benefit liability - end of year	**$ (64,232,000)**	$ (61,821,000)

	2010	2009
Accrued benefit liability - beginning of year	**$ (61,821,000)**	$ (61,177,000)
Expense – Non-WSIB	**(3,671,000)**	(3,770,000)
Expense (recovery) – WSIB	**(240,000)**	707,000
Funding contributions – Non-WSIB	**2,031,000**	2,419,000
Adjustment to match booked position – Non-WSIB	**(531,000)**	-
Accrued benefit liability - end of year	**$ (64,232,000)**	$ (61,821,000)

Included in the accrued non-pension benefit liability are workers' compensation benefits in the amount of $12,467,000 (2009 - $12,227,000). This amount has been determined from the most recent available actuarial calculations provided by the Workplace Safety and Insurance Board as at December 31, 2009.

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

March 31, 2010

9. Employee Future Benefits (continued)

c. Components of Net Periodic Pension Benefit Expense

	2010	2009
Current service cost less employee contributions	**$ 7,729,000**	$ 8,778,000
Interest cost on accrued benefit obligation	**27,824,000**	26,252,000
Expected return on plan assets	**(27,643,000)**	(34,219,000)
Amortization of initial obligation	**197,000**	197,000
Amortization of past service costs	**1,892,000**	1,892,000
Amortization of net actuarial loss (gain)	**1,974,000**	(17,000)
	$11,973,000	$ 2,883,000

d. Components of Net Periodic Non-Pension Benefit Expense

	2010	2009
Current service cost	**$ 1,136,000**	$ 318,000
Interest on accrued benefit obligation	**2,920,000**	2,745,000
Amortization of net actuarial gain	**(145,000)**	-
Adjustment to match booked position	**531,000**	-
	$ 4,442,000	$ 3,063,000

e. Weighted Average Assumptions

Discount rate - pension	**5.00**	6.75
Discount rate - non pension	**5.75**	6.75
Expected long-term rate of return on plan assets	**7.00**	7.00
Rate of compensation increase	**4.00**	4.00
Average remaining service period - pension (years)	**12**	12
Medical cost increases	**4.5% to 8.5%**	4.5% to 8.5%

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

10. Long-term Debt and Capital Lease Obligations

	2010	2009
a. Loan from Ontario Financing Authority, bearing interest at 5.22% per annum, repayable in blended monthly payments of $30,000 for 15 years beginning February 1, 2005.	**$ 2,809,000**	3,022,000
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.	**7,789,000**	9,184,000
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.	**5,040,000**	6,000,000
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.	**2,083,000**	2,139,000
Loan from Ontario Financing Authority, bearing interest at 4.717% per annum, repayable in blended annual payments of $1,681,000 for 4 years beginning March 31, 2007.	**-**	1,605,000
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 assets of Ontera.	**5,031,000**	5,528,000
Construction advance from the Bank of Montreal, bearing interest at the bank's prime rate less .75%. Further advances will be made up to $17,000,000 then converted to a fixed term loan, term not to exceed 10 years, bearing interest at bank cost of funds plus 40 basis points. Secured by assets of Ontera.	**16,000,000**	11,500,000
	38,752,000	38,978,000
Less current portion	**4,383,000**	5,806,000
	$ 34,369,000	$ 33,172,000

March 31, 2010

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

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

2010-2011	$ 4,383,000
2011-2012	4,575,000
2012-2013	4,778,000
2013-2014	4,994,000
2014-2015	3,976,000
Thereafter	16,046,000
	$ 38,752,000

	2010	2009
b. Capital lease bearing interest at 7% per annum, repayable in blended monthly payments of $1,000 for 5 years beginning September 22, 2006.	**35,000**	46,000
Capital lease bearing interest at 5.93% per annum, repayable in blended monthly payments of $7,000 for 4 years beginning January 24, 2006	**$ -**	61,000
	35,000	107,000
Less current portion	**11,000**	72,000
	$ 24,000	35,000

Payments under capital leases included above are as follows:

2010-2011	$ 13,000
2011-2012	25,000
Total minimum payments	38,000
Less: amount representing interest	3,000
Obligations under capital lease	$ 35,000

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

11. Deferred Revenue

Included in Deferred Revenue are the following two significant items:

In 2003, the Commission entered into a 20-year agreement with Hydro One for its use of the Commission's fibre optic cable, expiring in March 2022. The total contract value is $1,380,000. The remaining balance of $897,000 has been included as deferred revenue, of which $828,000 relates to periods after March 31, 2011. The deferred revenue will be recognized on a straight line basis over the life of the agreement. During 2010, $69,000 (2009 - $69,000) was included as revenue.

In 2004, the Commission entered into a multi-year contract to refurbish commuter cars. Under the terms of the contract, the Commission received an advance from the customer of $4,030,000 in 2005-2006 in addition to the $2,627,000 received in 2004 to defray contract costs. An amount of $NIL (2009 - $254,000) has been included as deferred revenue. The deferred revenue was recognized based on the percentage of completion method. During 2010, $ 254,000 (2009 - $ 2,011,000) of the advance was recognized as revenue.

12. Government Reimbursement

In accordance with a Memorandum of Understanding between the Commission and the Ministry of Northern Development, Mines and Forestry, certain operations of the Commission have been designated as non-commercial. The Commission and the Ministry have entered into annual contribution agreements which define the amount of compensation which the Province of Ontario would provide in each fiscal year.

A portion of the operating loss of the weekday passenger train service between North Bay and Toronto is reimbursed by the National Transportation Agency of Canada under Section 270 of the Railway Act. The federal government revoked the Railway Act during 1996 and replaced it with the Canada Transportation Act. A reimbursement of $2,500,000 was received for the year ended March 31, 2010.

Details of Government reimbursement are as follows:

	2010	2009
From Province of Ontario:		
Rail - Passenger Service and Moosonee Branch	**$ 21,160,000**	$ 21,260,000
Marine Services (Moosonee)	**40,000**	40,000
One-time funding	**6,800,000**	-
	28,000,000	21,300,000
From Transport Canada:		
Current year's operations	**2,500,000**	2,500,000
	$ 30,500,000	23,800,000

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

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

March 31, 2010

13. Telecommunications Revenue

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

14. 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 $ 4,411,000 (2009 - $ 4,388,000) plus $84,000 (2009 - $100,000) 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.

15. Passenger Revenue

In compliance with the Travel Industry Act, the 2010 gross retail sales were $227,000 (2009 - $216,000) and the 2010 gross wholesale sales were $83,000 (2009 - $83,000).

16. Contingencies

a. Ontera Assets
O.N.Tel Inc. (operating as Ontera) has sustained losses from operations over the current and the past six periods (see Schedule 2). In response to the situation, management developed a business plan in 2007 that required a significant investment in Ontera's property, plant and equipment along with associated financing. The Province approved the plan in 2007 including the underlying capital investment component. Financing of $23,000,000 from the Bank of Montreal to support the plan was obtained in 2008; of which, $22,000,000 has been drawn by March 31, 2010 (see Note 10a).

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

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

17. Commitments

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

The Commission is also obligated to certain job guarantee agreements with a significant number of its unionized employees. To the extent of any actual claims under these agreements, the Commission would maintain provisions for such items. Due to the nature of these agreements, the maximum exposure for future payments may be material. However, such exposure cannot be reasonably determined and no provision has been made as at the year-end date.

18. Financial Instruments

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

Fair Value

The fair value of cash and cash equivalents, accounts receivable, Self Insurance Fund, 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 and capital lease obligations is approximately equal to its carrying value since the applicable interest rates are comparable to the 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 $102,000. 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.

March 31, 2010

18. Financial Instruments (continued)

Credit Risk

The Commission is exposed to credit risk due to the concentration of large customers (see Economic Dependence - Note 21 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.

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, 2010

Customer accounts receivables net of allowance of doubtful accounts (in thousands)		
Current	$	**16,564**
30-60 days past billing date		**990**
60-90 days past billing date		**298**
90-120 days past billing date		**251**
Greater than 120 days past billing date		**365**
Trade accounts receivable	$	**18,468**

Seventy percent of the balance in the greater than 120 days past billing date ($256,000) 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)		**2010**		2009
Balance, beginning of year	**$**	**3,172**	$	1,525
Additions (provision for doubtful accounts)		**614**		1,682
Net use		**(109)**		(35)
Balance, end of year	**$**	**3,677**	$	3,172

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

18. Financial Instruments (continued)

Credit Risk (continued)

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 whether past-due accounts should be allowed for; the same factors are considered when determining whether to write off amounts charged to allowance account against customer account receivable. The provision for doubtful accounts is calculated on a specific-identification basis for customer accounts receivable over a specific balance threshold and for the telecommunication division it is determined on a percentage of outstanding customer balances.

Currency Risk

The Commission undertakes transactions denominated in United States dollars and as such is exposed to fluctuations in foreign exchange rates. The Commission generates revenues and incurs expenses in Canadian and United States dollars. When the Canadian dollar changes relative to the U.S. dollar, income reported in Canadian dollars will change. The impact of a strengthening Canadian dollar on U.S. dollar revenues and expenses will reduce net income because the Commission has more U.S. dollar revenues than U.S. dollar expenses. The impact to net income if the Canadian dollar strengthens by one cent would be a decrease in net income by $44,000. The impact of currency fluctuations is mitigated substantially by the settlement of its monthly rail settlement with customer receipts in U.S. dollars. The Commission does not use derivative instruments to reduce its exposure to foreign currency risk.

Interest Rate Risk

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

The construction loan has a balance at year end of $16,000,000 with a floating interest rate of prime less .75. The impact to net income if interest rates increase by one percentage would be a decrease in net income by $160,000. The Commission plans to convert this construction loan into a fixed loan in the first quarter of fiscal 2011.

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

Liquidity Risk

The Commission monitors its liquidity risk to ensure access to sufficient funds to meet operational requirements. The Commission manages liquidity risk by monitoring forecasts and actual cash flows and by managing maturity profiles of financial assets and financial liabilities. Management provides these reports to the Commission and the Province on a regular basis. The Commission does not use derivative instruments to reduce its exposure to liquidity risk.

March 31, 2010

19. 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.

20. Related Party Transactions

During the year, the Commission charged the ONTC Contributory Pension Fund $138,000 (2009 - $142,000) for financial and administrative support.

21. Economic Dependence

During 2010, the Rail Services Division derived 49% (2009 - 44%) of its revenue from three major customers.

22. Comparative Figures

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

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