Ontario Northland Transportation Commission
2014-2015 Annual Report

www.ontarionorthland.ca

Table of Contents

Message from the Chair

This fiscal year marked the beginning of a new journey for Ontario Northland. The company is reenergized by a commitment from the provincial government to support the transportation agency's transformation efforts to achieve sustainability.

In November 2014 a three year corporate change initiative was launched. The program was appropriately titled *Moving Forward* and will transform Ontario Northland to a sustainable, efficient and valued leader in transportation. In just a few months this ambitious initiative has already begun to take on sizable operational challenges and produce significant results.

The guiding principles of the Moving Forward program are to:

- Increase revenue and contain costs;
- Focus on transportation solutions;
- Achieve business and service excellence;
- Continuously improve and innovate; and
- Collaborate with employees and communities.

Transformation of this magnitude and depth requires significant operational and cultural improvements across all levels of the organization. It will require the collective efforts of all employees to put forward suggestions for improvement and to implement creative solutions to complex operational challenges.

A significant milestone for the agency included the transition of Ontera, the telecommunications division, to Bell Aliant, which was finalized in October 2014. Various departments such as Finance, Information Technology and Stores continue to provide services to Bell Aliant while operating systems are transitioned to the new owners.

The next year will bring unique operational hurdles to overcome, including labour relations, a significant amount of retirements, cost containment measures and restructuring. With the organization's renewed sense of purpose, these challenges will soon become accomplishments and Ontario Northland will be positioned as a leader in transportation with widespread recognition of its large contribution to the economic and social fabric of Northeastern Ontario.

Tom Laughren
Chair, Ontario Northland Transportation Commission

Highlights

REVENUE
$62.3 million

MOVING PEOPLE
54,605 passengers travelled on the Polar Bear Express
256,324 passengers travelled on Ontario Northland's motor coaches

MOVING GOODS
25,091 carloads of freight shipped
175,825 express freight shipments between Moosonee and Cochrane weighing over 3M kilograms
3,591 vehicles transported between Moosonee and Cochrane

TRANSFORMATION
Established core transformation team and launched 'Moving Forward' vision
Held over 25 employee information sessions
Held over 10 community information sessions
Over 200 suggestions for improvement received from employees and community members
52 major business processes mapped and improvements implemented/planned

ECONOMIC IMPACT
- For every $1 dollar of direct revenue Ontario Northland produces there is a business output multiplier of $2.11 to the Province of Ontario*
- For every $1 of wages there is an estimated $1.47 of estimated value add generated across the region*
- For each job at Ontario Northland there is another job that exists because of our business presence*

ENVIRONMENTAL IMPACT
For every rail car shipped, two and half transport trucks are taken off the road contributing to potential road maintenance savings in northeastern Ontario.

*Source: Ontario Northland Economic and Social Impact Study, HDR Corp in association with Dr. Bakhtiar Moazzam, 2008.

Company Overview

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

Our Services

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

The sale of Ontera, the telecommunications division, to Bell Aliant was announced in April 2014. The ONTC continued to operate Ontera until the sale closed on October 1, 2014.

Vision

Efficient and valued transportation solutions for the next 100 years.

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

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

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

Values

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

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

Corporate Governance

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

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

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

Mandate

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

The revised mandate of the ONTC is to:

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

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

Reporting Structure

The President and CEO reports to the ONTC, comprised of a Chair and Commission members, each of whom have been appointed by the Province of Ontario. The Commission, in turn, reports to the Minister of Northern Development and Mines, the ministry responsible for overseeing the ONTC.

Commission Members

The 2014-2015 fiscal period was a period of renewal for the Ontario Northland Transportation Commission with new commission members being appointed near the end of the fiscal year.

Ted Hargreaves, North Bay, Chair
(appointment March 22, 2014 to March 11, 2015)

Greg Percy, Toronto, Vice President, Operations, Metrolinx
(appointment March 22, 2014 to March 22, 2015)

***

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

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

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

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

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

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

Principal Officers – Ontario Northland

Paul Goulet – President and Chief Executive Officer (retired October 2014)
Corina Moore – Interim President and Chief Executive Officer (appointed October 2014), Chief Operating Officer (April – September 2014)
Kevin Donnelly – Vice President of Finance and Administration
John Thib – Vice President of Rail
Geoff Cowie – General Counsel

Employees

Ontario Northland employs over 750 individuals, who live and work in Northern Ontario and Northwestern Quebec.

2014-2015 in Review

Passenger Services

Motor Coach Services:
Equipment renewal was a priority for Passenger Services during this fiscal year. Eight new coaches were added to the fleet improving performance and reliability. Three of these new coaches are equipped with fully accessible washrooms making long-distance travel a possibility for passengers with accessibility needs.

Operational efficiencies were identified this fiscal year. In February 2015 the decision to close the Englehart and Matheson stations was made. Growing facility maintenance costs, the growth of online ticketing and low ticket sales prompted the decision. The stations will close early in the next fiscal period and over $600,000 of savings will be realized annually as a result of this change.

Motor Coach Services brought in $10.3M of revenue into the company, a slight decrease from the previous year due to a slight decrease in ridership. Operating expenses amounted to $11.7M, an amount nearly equivalent to the previous year.

Polar Bear Express:
Ridership on the Polar Bear Express train decreased by two per cent. This could be attributed to the decrease in population in the communities alongside the James Bay coast. Consultation with the communities of Moosonee and Moose Factory about the design of the refurbished Polar Bear Express equipment coincided with a celebration of the 50th anniversary of the train in November 2014 and February 2015. Listening, learning and engaging with our customers provided valuable insight that continues to contribute to an enhanced passenger experience and informs the redesign of the train equipment.

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

Passenger Numbers:	**2014-2015**	**2013-2014**	**2012-2013**
Polar Bear Express	54,605	55,727	62,389
Motor Coach	256,324	260,046	240,122

Rail Services

Rail Services continued to demonstrate its commitment to rail safety, advanced its bridge management capital plan, and implemented innovative operational efficiencies in 2014-2015.

Rail freight and passenger revenues increased by $2.3M from the previous year, for a total of $46.8M due to increased efforts to generate new services such as special trains and storage.

Operating expenses for Rail Services totalled $64.5M, a decrease of $1.2M from the previous fiscal year largely due to cost efficiencies.

The division began to transition locomotive maintenance to Cochrane in an effort to increase capacity for external remanufacturing and repair work in North Bay and reduce the number of days out of service for the locomotive fleet. Facility and equipment upgrades as well as employee training are planned for next fiscal year to support this transition.

Just over 25,000 car loads were shipped during this period, a decrease of 1.6 per cent from the previous year. Resolute Forest Products closed its Iroquois Falls paper mill in December 2014 contributing to this decline.

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

The systematic renewal and maintenance process for Ontario Northland's rail infrastructure continued as part of the company's long-term rail renewal and maintenance plan. Projects included the continued renewal of the Moose River Bridge and the repair of the Jaw Bone Bridge north of Cochrane. Bridge repair at Frederickhouse River and the Buskego Creek in Kenogami were also significant projects. Rail and tie renewals took place across the system, along with culvert and ballast replacement. An investment of $31.2 million of capital was made to maintain our rail infrastructure and equipment.

Transport Canada amended the Transportation of Dangerous Goods Act and Regulations in 2014, and in 2014-15, ONTC continued to address and comply with these standards as the Rail Division follows strict safety protocols and procedures in compliance with Transport Canada guidelines and regulations, protecting our employees, customers and the communities we serve.

Carloads Shipped

2014-2015	**2013-2014**	**2012-2013**
25,091	25,503	34,237

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

	2014-2015	**2013-2014**	**2012-2013**
Polar Bear Express	99%	98%	95%

Remanufacturing and Repair

The division expanded it capabilities this fiscal year to include rail freight repair services, locomotive repair and specialty paint services. Increased sales and marketing efforts, customer relations, and operational efficiencies resulted in $4.7M in revenue.

In November 2014 the Polar Bear Express refurbishment project entered into the production phase. This project will revitalize the company's passenger train that provides vital transportation between the communities of Cochrane and Moosonee. The 16 car project will renew the equipment in order to better meet the needs of the community.

The five remaining cars from the Metrolinx/Cad Railway Industries Ltd. 10 car bi-level 5 assignment contract were completed. As such revenues in 2014-2015 amount to $4.7M, down from $7.5M in the previous year. Expenses in this division amounted to $6.8M, down from $8.4M in the previous year.

The division continues to expand its capabilities in order to secure a diverse amount of work.

Corporate Services

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

Performance Highlights:

- Over 1000 facility service requests completed
- Over 3000 information technology service requests completed
- A new corporate VoIP phone system and LAN upgrades were made in North Bay which are expected to produce operation savings of $100,000 per year moving forward.
- An investment of over $1M was made in information system upgrades including Finance and Human Resources software modernization to improve accounts payable, payroll and human capital management.
- A fully accessible website was launched in January 2015, attracting over 100,000 page views per month
- In March a labour agreement was reached with United Steelworkers Union Local 1976 representing employees working in the areas of rail traffic control, customer service and sales, and train operations.
- Energy savings of $4,800 were achieved by replacing outdoor lights at the North Bay Station.

Financial Statements

Ontario Northland Transportation Commission

Consolidated Financial Statements

For the year ended March 31, 2015

Ontario Northland Transportation Commission
Consolidated Financial Statements
For the year ended March 31, 2015

Contents

Management's Responsibility

The Ontario Northland Transportation Commission's management is responsible for the integrity and fair presentation of the consolidated financial statements and other information included in the annual report. The consolidated financial statements have been prepared in accordance with Canadian public sector accounting standards. The preparation of consolidated financial statements necessarily involves the use of management's judgment and best estimates, particularly when transactions affecting the current accounting period cannot be determined with certainty until future periods. All financial information in the annual report is consistent with the consolidated financial statements.

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

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

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

T. Laughren
Chair

C. Moore
Interim President and CEO

North Bay, Ontario
July 27, 2015

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

Independent Auditor's Report

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

I have audited the accompanying consolidated financial statements of Ontario Northland Transportation Commission, which comprise the consolidated statement of financial position as at March 31, 2015, and the consolidated statements of changes in net assets, operations, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Ontario Northland Transportation Commission as at March 31, 2015, and the results of its consolidated operations, and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Emphasis of Matter

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

Toronto, Ontario
July 27, 2015

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

Box 105, 15th Floor
20 Dundas Street West
Toronto, Ontario
M5G 2C2
416-327-2381
fax 416-326-3812

B.P. 105, 15e étage
20, rue Dundas ouest
Toronto (Ontario)
M5G 2C2
416-327-2381
télécopieur 416-326-3812

www.auditor.on.ca

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

March 31		**2015**		2014
Assets				
Current				
Cash and cash equivalents (Note 4)	**$**	**7,668**	$	2,650
Accounts receivable (Net of allowance - $ 86; 2014 - $1,392)		**45,224**		34,090
Inventory		**13,413**		14,223
Prepaid expenses		**391**		602
		66,696		51,565
Capital assets (Note 5)		**315,134**		331,740
Accrued pension benefit asset (Note 6a)		**35,072**		40,384
	$	**416,902**	$	423,689
Liabilities and Net Assets				
Current				
Accounts payable and accrued liabilities	**$**	**39,701**	$	19,454
Current portion of long-term debt (Note 8)		**366**		3,789
Current portion of deferred revenue		**511**		5,973
		40,578		29,216
Deferred revenue		**-**		552
Deferred capital contributions (Note 7)		**199,696**		179,038
Long-term debt (Note 8)		**2,951**		18,823
Accrued non-pension benefit obligation (Note 6b)		**82,959**		82,894
Liability for contaminated sites (Note 3)		**3,500**		-
		329,684		310,523
Net assets				
Unrestricted		**82,562**		108,042
Internally restricted		**4,656**		5,124
		87,218		113,166
	$	**416,902**	$	423,689

Nature of operations (Note 1)
Contingencies (Note 11) / **Commitments** (Note 12)

Approved on behalf of the Commission:

Chair

Interim President and CEO

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

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

For the year ended March 31	2015	2014
Unrestricted Net Assets		
Balance, beginning of year	$ 108,042	$ 136,745
Change in Accounting Policy (Note 3)	(3,500)	-
Deficiency of revenues over expenses	(22,448)	(28,532)
Transfer from (to) Reserve for Self Insurance	468	(171)
Balance, end of year	$ 82,562	$ 108,042

	2015	2014
Internally Restricted - Reserve for Self Insurance (Note 10)		
Balance, beginning of year	$ 5,124	$ 4,953
Transfers (to) from Unrestricted Net Assets	(468)	171
Balance, end of year	$ 4,656	$ 5,124

	2015	2014
Total Net Assets	$ 87,218	$ 113,166

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

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

For the year ended March 31, 2015	2015	2014
Rail Services		
Sales revenue (Note 13)	**$ 46,797**	$ 44,518
Operating expense	**64,521**	65,682
Deficiency of revenues over expenses before the undernoted	**(17,724)**	(21,164)
Amortization of capital assets	**11,322**	11,531
Amortization of deferred capital contributions (Note 7)	**(4,673)**	(4,642)
Gain on sale of capital assets	**(413)**	(332)
Employee future benefit expense	**11,524**	11,198
Interest expense	**29**	187
Northlander Settlement expense (Note 14)	**-**	2,913
Deficiency of revenues over expenses	**(35,513)**	(42,019)
Motor Coach Services		
Sales revenue	**10,310**	10,731
Operating expense	**11,688**	11,611
Deficiency of revenues over expenses before the undernoted	**(1,378)**	(880)
Amortization of capital assets	**638**	300
Amortization of deferred capital contributions (Note 7)	**(133)**	(132)
Loss on sale of capital assets	**183**	22
Employee future benefit expense	**1,349**	1,222
Interest expense	**81**	91
Deficiency of revenues over expenses	**(3,496)**	(2,382)
Refurbishment		
Sales revenue	**4,683**	7,477
Operating expense	**6,758**	8,422
Deficiency of revenues over expenses before the undernoted	**(2,075)**	(945)
Amortization of capital assets	**87**	86
Amortization of deferred capital contributions (Note 7)	**(13)**	(13)
Employee future benefit expense	**1,445**	1,491
Interest expense	**81**	102
Deficiency of revenues over expenses	**(3,675)**	(2,611)
Marine Services (Moosonee)		
Sales revenue	**-**	-
Operating expense	**-**	45
Deficiency of revenues over expenses before the undernoted	**-**	(45)
Loss on transfer of capital assets	**-**	631
Deficiency of revenues over expenses	**$ -**	$ (676)

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

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

For the year ended March 31	2015	2014
Development		
Sales revenue	$ 491	$ 542
Operating expense	507	296
(Deficiency) excess of revenues over expenses before the undernoted	(16)	246
Amortization of capital assets	37	37
(Deficiency) excess of revenues over expenses	(53)	209
Administration		
Operating expenses	7,194	7,836
Severances	1,823	-
Amortization of capital assets	111	111
Employee future benefit expense	1,879	1,663
Interest expense	19	11
Deficiency of revenues over expenses	(11,026)	(9,621)
Total operations:		
Sales revenue	62,281	63,268
Operating expense	92,491	93,892
Deficiency of revenues over expenses before other expenses	(30,210)	(30,624)
Amortization of capital assets	12,195	12,066
Amortization of deferred capital contributions (Note 7)	(4,819)	(4,787)
Loss (gain) on sale of capital assets	(230)	321
Employee future benefit expense (Note 6d)	16,197	15,574
Interest expense	210	391
Northlander Settlement expense (Note 14)	-	2,913
Deficiency of revenues over expenses before the following	(53,763)	(57,102)
Government Operating Contributions (Note 9)	38,459	29,900
Investment income	62	71
Deficiency of revenues over expenses before discontinued operations	(15,242)	(27,131)
Discontinued operations (Note 17)	(7,206)	(1,401)
Deficiency of revenues over expenses for the year	$ (22,448)	$ (28,532)

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

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

Year ended March 31	2015	2014
Cash provided by (used in)		
Operating activities		
Deficiency of revenues over expenses for the year	**$ (22,448)**	$ (28,532)
Items not affecting cash		
Amortization of capital assets	**12,195**	12,066
Amortization of deferred capital contributions	**(4,819)**	(4,787)
Loss (gain) on disposal of capital assets	**(230)**	321
Loss on disposal of Ontera (Note 17)	**60,937**	-
Discontinued operations	**(45,604)**	6,860
Employee future benefit expense	**16,197**	15,574
	16,228	1,502
Changes in non-cash working capital balances		
Accounts receivable	**(13,479)**	(4,702)
Inventory	**810**	1,877
Prepaid expenses	**21**	28
Accounts payable and accrued liabilities	**21,788**	(5,561)
Deferred revenue	**(5,416)**	5,104
	19,952	(1,752)
Capital activities		
Purchase of capital assets	**(33,879)**	(34,038)
Proceeds from sale of capital assets	**230**	194
Proceeds on sale of Ontera (Note 17)	**6,000**	-
	(27,649)	(33,844)
Financing activities		
Principal repayment of long-term debt	**(19,295)**	(4,760)
Deferred capital contributions	**38,306**	40,436
Pension contributions	**(2,956)**	(2,898)
Non-pension benefits paid	**(3,340)**	(2,787)
	12,715	29,991
Increase (decrease) in cash and cash equivalents during the year	**5,018**	(5,605)
Cash and cash equivalents, beginning of year	**2,650**	8,255
Cash and cash equivalents, end of year	**$ 7,668**	$ 2,650

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

1. Nature of Operations

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

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

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

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

On April 4, 2014 the Province announced that it would transform the Ontario Northland Transportation Commission as a government-owned transportation company while continuing to provide motor coach, Polar Bear Express, rail freight and refurbishment services. At the same time it was announced that an offer to purchase O.N. Tel Inc. (Ontera) from Bell Aliant had been accepted (see Note 17 Discontinued Operations). The purchase transaction was finalized on October 1, 2014.

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

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

2. Significant Accounting Policies

These consolidated financial statements are prepared in accordance with the standards applicable for government not-for-profit organizations found in the Public Sector Accounting Handbook. They include the accounts of the Commission and its wholly-owned subsidiaries, Ontario Northland International Consulting Services Inc., O.N. Tel Inc. (o/a Ontera) (up until the sale date of October 1, 2014) and Nipissing Central Railway Company.

Revenue Recognition

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

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

Rail services revenues are generally recognized on completion of movements, with interline movements being treated as complete when the shipment is turned over to the connecting carrier.

Contract revenues are generally recorded on a percentage of completion basis as work reaches predetermined project milestones.

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

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

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

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

2. Significant Accounting Policies (continued)

Capital Assets

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

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

Land	No amortization
Roadway	20 to 50 years
Buildings	50 years
Telecommunications equipment	15 to 25 years
Equipment	3 to 33 years
Coaches	12 years

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

Employee Future Benefits

Pension Plans - The Commission maintains a contributory defined benefit pension plan for its employees. It provides for pensions based on years of service and average pensionable earnings and is generally applicable from the first day of the month following employment. A Supplementary Employee Retirement Plan (SERP) also exists for employees who earn a lifetime pension amount in excess of the Canadian Income Tax Act’s maximum. The obligations under the plan are determined using the accrued benefit method reflecting projected benefits for services rendered to date. The plans are not indexed; however, there have been a variety of ad hoc increases made to pensioners.

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

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

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

Pension fund assets are valued using current market values.

Inventory

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

The cost of inventory expensed to operations and used in capital projects for 2015 was $17,084 (2014 - $15,191).

Impairment of Capital Assets

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

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated at the prevailing rates of exchange at the Consolidated Statement of Financial Position date. Revenues and expenses are translated at the rates of exchange in effect at the transaction date. Realized and unrealized gains and losses are included in the determination of excess of revenue over expenses. Included in Rail revenue is a foreign currency gain of $ 988 (2014 - gain of $218) arising mainly from rail traffic settlements between Canada and the U.S.A.

2. Significant Accounting Policies (continued)

Income Taxes

As a not-for-profit operational enterprise of the Province, the Commission is exempt from income taxes. This exemption extends to its wholly-owned subsidiaries, and accordingly no tax provision is recorded in these financial statements.

Accounting Estimates

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

Cash and Cash Equivalents

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

Financial Instruments

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

Fair value

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

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

2. Significant Accounting Policies (continued)

***Amortized** cost*

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

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

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

Liabilities for Contaminated Sites

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

3. Change in Accounting Policies

Liability for contaminated sites

Effective April 1, 2014 the Commission adopted new Public Sector Accounting Handbook Standard PS 3260, *Liability for Contaminated Sites*. The standard requires the recognition of a liability for the remediation of contamination sites in the financial statements when the recognition criteria outlined in the standard is met. The impact on adoption of this standard was as follows:

	2015
Increase in liability for contaminated site	$3,500
Decrease in unrestricted net assets	$3,500

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

4. Cash and Cash Equivalents

		2015		2014
Cash (bank overdraft)	**$**	**3,012**	$	(2,474)
Cash related to Reserve for Self Insurance (Note 10)		**4,656**		5,124
Cash	**$**	**7,668**	$	2,650

(dollars in thousands)

5. Capital Assets

			2015	2014
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Rail Services				
Roadway	$ 395,779	$ 147,539	**$ 248,240**	$ 229,239
Buildings	45,102	22,434	**22,668**	23,147
Equipment	79,788	55,473	**24,315**	24,529
Under construction	7,127	-	**7,127**	3,163
Telecommunications (Ontera) (Note 17)				
Buildings	-	-	**-**	2,177
Equipment	-	-	**-**	39,133
Motor Coach Services				
Buildings	2,865	553	**2,312**	2,312
Coaches	10,175	4,352	**5,823**	3,418
Refurbishment				
Buildings	3,596	698	**2,898**	2,813
Equipment	585	190	**395**	417
Development				
Land and buildings	2,851	1,495	**1,356**	1,392
	$ 547,868	$ 232,734	**$ 315,134**	$ 331,740

(dollars in thousands)

6. Employee Future Benefits

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

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

The pension plan's asset target percentage allocation and average asset allocation as at March 31, 2015, by category are as follows:

		Target	**2015**	2014
Equity securities	– Domestic	20% - 30%	**28.8%**	25.9%
	– Foreign	10% - 30%	**24.7%**	24.6%
Debt securities		35% - 55%	**43.9%**	46.2%
Real estate		0% - 15%	**2.0%**	2.0%
Short-term and other		0% - 15%	**0.6%**	1.3%
Total			**100%**	100%

(dollars in thousands)

6. Employee Future Benefits (continued):

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

Pension Plans:

	Pension	SERP	2015 Total	2014 Actual
Accrued benefit obligation	$ (522,887)	$ (3,534)	$ (526,421)	$ (491,145)
Plan assets at fair value	514,401	-	514,401	482,966
Funded status - plan (deficit) surplus	(8,486)	(3,534)	(12,020)	(8,179)
Unamortized net actuarial loss	45,651	1,441	47,092	48,563
Accrued benefit asset (liability) net of valuation allowance - end of year	$ 37,165	$ (2,093)	$ 35,072	$ 40,384

	Pension	SERP	2015 Total	2014 Actual
Accrued benefit asset - beginning of year	$ 42,453	$ (2,069)	$ 40,384	$ 47,881
Employee future benefit expense	(8,019)	(249)	(8,268)	(10,395)
Funding contributions	2,731	225	2,956	2,898
Accrued benefit asset - end of year	$ 37,165	$ (2,093)	$ 35,072	$ 40,384

(dollars in thousands)

6. Employee Future Benefits (continued):

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

Non-Pension Benefit Plans:

		2015		2014
Accrued benefit obligation - beginning of year	$	(86,100)	$	(82,093)
Unamortized net actuarial (loss) gain		3,141		(801)
Accrued benefit liability - end of year	$	(82,959)	$	(82,894)

		2015		2014
Accrued benefit liability - beginning of year	$	(82,894)	$	(77,621)
Benefit expense		(3,405)		(8,060)
Funding contributions		3,388		2,988
Other		(48)		(201)
Accrued benefit liability - end of year	$	(82,959)	$	(82,894)

Included in the accrued non-pension benefit liability are workers' compensation benefits in the amount of $ 14,662 (2014 - $16,502). This amount has been determined from the most recent available actuarial calculations provided by the Workplace Safety and Insurance Board as at December 31, 2014.

c. Components of Net Periodic Pension Benefit Expense

		2015		2014
Current service cost less employee contributions	$	7,447	$	6,552
Interest on accrued benefit obligation		29,093		27,423
Expected return on plan assets		(28,162)		(27,258)
Amortization of net actuarial loss		4,047		3,678
Curtailment gain (Note 17)		(4,157)		-
	$	8,268	$	10,395

(dollars in thousands)

6. Employee Future Benefits (continued)**:**

d. Components of Net Periodic Non-Pension Benefit Expense

	2015	2014
Current service cost	**$ 1,085**	$ 4,790
Interest on accrued benefit obligation	**2,565**	2,582
Amortization of net actuarial losses	**1,922**	688
Curtailment gain (Note 17)	**(2,167)**	-
	$ 3,405	$ 8,060

The total pension and non-pension benefit expense of $11,673 includes $16,197 relating to continuing operations and ($4,524) relating to discontinued operations.

e. Weighted Average Assumptions

Discount rate - pension	**5.75%**	6.00%
Discount rate - non pension	**3.94%**	3.94%
Discount rate – long-term disability	**3.94%**	4.02%
Discount rate - WSIB	**4.75%**	5.00%
Expected long-term rate of return on plan assets	**5.75%**	6.00%
Rate of compensation increase	**3.00%**	3.00%
Average remaining service period (years)	**12**	12
Drug cost increases (grading down to 5% in 2020)	**6.00%**	8.50%
Medical and hospital cost increases	**5.00%**	5.00%
Dental cost increases	**4.50%**	4.50%
Vision care cost increases	**0%**	0%

(dollars in thousands)

7. Deferred Capital Contributions

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

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

	2015	2014
Balance - beginning of year	**$ 179,038**	$ 148,093
Contributions from the Province	**38,306**	40,436
Amortization to revenue – Rail Services, Motor Coach Services, and Refurbishment	**(4,819)**	(4,787)
– Telecommunications (Ontera)	**(678)**	(1,001)
Retirements and transfers	**(12,151)**	(3,703)
Balance - end of year	**$ 199,696**	$ 179,038

8. Long-term Debt

	2015	2014
Loan from Ontario Financing Authority, bearing interest at 5.22% per annum, repayable in blended monthly payments of $30 for 15 years beginning February 1, 2005	**$ 1,560**	$ 1,836
Loan from Ontario Financing Authority, bearing interest at 4.90% per annum, repayable in blended monthly payments of $13 for 25 years beginning February 1, 2006.	**1,757**	1,829
Loan from Ontario Financing Authority, bearing interest at 5.60% per annum, repayable in blended monthly payments of $156 for 15 years beginning January 1, 2000.	**-**	1,370
Loan from Ontario Financing Authority, bearing interest at 6.37% per annum, repayable in blended monthly payments of $109 for 15 years beginning September 1, 1999.	**-**	537
Loan from Bank of Montreal, bearing interest at 5.11% per annum, repayable in blended monthly payments of $64 for 10 years beginning April 30, 2008. Secured by a floating charge on all Ontera assets. (Note 17)	**-**	2,772
Loan from Bank of Montreal, bearing interest at 5.95% per annum, repayable in blended weekly payments of $32 for 15 years beginning October 7, 2010. Secured by a floating charge on all Ontera assets. (Note 17)	**-**	14,268
	3,317	22,612
Less current portion	**366**	3,789
Long-term debt	**$ 2,951**	$ 18,823

(dollars in thousands)

8. Long-Term Debt (continued):

Interest on long-term debt was $ 699 (2014 - $1,426).

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

2015-2016	$	366
2016-2017		386
2017-2018		406
2018-2019		428
2019-2020		390
Thereafter		1,341
	$	3,317

9. Government Contributions

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

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

		2015		2014
Ministry of Northern Development and Mines:				
Rail - Passenger Service and Moosonee Branch	**$**	**16,127**	$	18,900
Cash deficiency and other		**22,332**		11,000
Operating activities	**$**	**38,459**	$	29,900
Telecommunications (Ontera) (Note 17) (i)		**52,092**		-
	$	**90,551**	$	29,900
Capital contributions		**38,306**		40,436
Total Government contributions	**$**	**128,857**	$	70,336

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

10. Internally Restricted Net Assets – Reserve for Self Insurance

The Commission follows the policy of self-insuring for damages from rolling stock derailments and for cargo damage. Annually the Commission transfers $100 from unrestricted net assets to the Reserve for Self Insurance (the "Reserve") to finance such costs. Interest earned on the reserve balance and claims expensed in the reserve balance are recorded as revenue and expenses in the consolidated statement of operations then transferred to/from the Reserve.

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

11. Contingencies

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

12. Commitments

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

13. Economic Dependence

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

14. Settlement Expenses

In connection with the cancellation of the Northlander passenger train operation in 2012, a wage settlement agreement was negotiated with the United Steelworkers, the bargaining agent for those employees. The agreement was signed in August 2013 and will result in wage continuation and maintenance of basic rates payments extending into August 2017 amounting to $2,913. In the current fiscal period $1,234 has been paid related to this agreement.

(dollars in thousands)

15. Financial Instrument Classification

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

			2015
	Fair Value	**Amortized Cost**	**Total**
Cash and cash equivalents	**$ 7,668**	**$**	**$ 7,668**
Accounts receivable	**-**	**45,224**	**45,224**
Accounts payable and accrued liabilities	**-**	**39,701**	**39,701**
Long-term debt	**-**	**3,317**	**3,317**
	$ 7,668	**$ 88,242**	**$ 95,910**

			2014
	Fair Value	Amortized Cost	Total
Cash and cash equivalents	$ 2,650	$	$ 2,650
Accounts receivable	-	34,090	34,090
Accounts payable and accrued liabilities	-	19,454	19,454
Long-term debt	-	22,612	22,612
	$ 2,650	$ 76,156	$ 78,806

(dollars in thousands)

15. Financial Instrument Classification (continued)

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

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

				2015
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	**$ 7,668**	**$ -**	**$ -**	**$ 7,668**

				2014
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 2,650	$ -	$ -	$ 2,650

There were no transfers between Level 1 and 2 for the years ended March 31, 2015 and 2014. There were no transfers in or out of Level 3.

(dollars in thousands)

16. Financial Instrument Risk Management

Credit risk

Credit risk is the risk of financial loss to the Commission if a debtor fails to make payments of interest and principal when due. The Commission is exposed to this risk relating to its cash and accounts receivable. The Commission holds its cash accounts with federally regulated chartered banks who are insured by the Canadian Deposit Insurance Corporation. In the event of default, the Commission's cash accounts are insured up $400,000 (2014 - $400,000).

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

March 31, 2015					**Past Due**
	Total	**Current**	**1-30 days**	**31-60 days**	**over 61 days**
Government receivables	**$ 34,055**	**$ 34,055**	**$ -**	**$ -**	**$ -**
Customer receivables	**7,857**	**5,422**	**1,553**	**188**	**694**
Other receivables	**3,398**	**3,398**	**-**	**-**	**-**
Gross receivables	**45,310**	**42,875**	**1,553**	**188**	**694**
Less: impairment allowances	**(86)**	**-**	**-**	**-**	**(86)**
Net receivables	**$ 45,224**	**$ 42,875**	**$ 1,553**	**$ 188**	**$ 608**

March 31, 2014					Past Due
	Total	Current	1-30 days	31-60 days	over 61 days
Government receivables	$ 12,112	$ 12,112	$ -	$ -	$ -
Customer receivables	20,150	16,940	949	191	2,070
Other receivables	3,220	3,220	-	-	-
Gross receivables	35,482	32,272	949	191	2,070
Less: impairment allowances	(1,392)	-	-	-	(1,392)
Net receivables	$ 34,090	$ 32,272	$ 949	$ 191	$ 678

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

16. Financial Instrument Risk Management (continued)

Market risk

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

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

Currency risk

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

Interest rate risk

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

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

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

Equity risk

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

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

Liquidity risk

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

(dollars in thousands)

16. Financial Instrument Risk Management (continued)

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

	2015			
	Within 6 months	**6 months to 1 year**	**1-5 years**	**> 5 years**
Accounts payable	**$ 29,513**	**$ 10,188**	**$ -**	**$ -**
Long-term debt	**183**	**183**	**1,701**	**1,250**
Total	**$ 29,696**	**$ 10,371**	**$ 1,701**	**$ 1,250**

	2014			
	Within 6 months	6 months to 1 year	1-5 years	> 5 years
Accounts payable	$ 19,454	$ -	$ -	$ -
Long-term debt	1,895	1,894	9,446	9,377
Total	$ 21,349	$ 1,894	$ 9,446	$ 9,377

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

(dollars in thousands)

17. Discontinued Operations

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

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

	6 month period ended September 30, 2014	year ended March 31, 2014
Sales revenue	$ **12,348**	**$** 26,761
Operating expense	**10,668**	20,249
Excess of revenue over expenses before the undernoted	**1,680**	6,512
Amortization of capital assets	**2,512**	4,980
Amortization of deferred capital contributions	**(678)**	(1,001)
Employee future benefit expense	**1,800**	2,881
Interest expense	**154**	1,053
Interest and penalties relating to early payment of long term debt	**2,577**	-
Deficiency of revenue over expenses before loss on disposal	**(4,685)**	(1,401)
Government contributions (Note 9)	**52,092**	-
Curtailment (Note 6)	**6,324**	
Loss on disposal of shares of Ontera (i)	**(60,937)**	-
Loss from discontinued operations	**$ (7,206)**	$ (1,401)

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

The Statement of Financial Position for the year ended March 31, 2014 includes balances related to Ontera as follows: cash and cash equivalents of ($1,270), accounts receivable of $2,345, prepaid expenses of $190, capital assets of $41,310, accounts payable and accrued liabilities of $1,542, current portion of deferred revenue of $45, deferred revenue of $552, long-term debt of $17,040, and deferred capital contributions of $12,827 related to discontinued operations.