

Saskatchewan Transportation Company

Third Quarter Report 2008

2008 3rd Quarter Corporate Reporting

1. Management Discussion and Analysis

- Passenger Service
- Express Service
- Maintenance Services
- Financial Services
- Future Accounting Changes
- Other Issues

2. Quarterly Financial Statements

- Statement of Financial Position
- Statement of Operations and Retained Earnings
- Statement of Cash Flows
- Notes to Financial Statements

3. Link to STC 2007 Annual Report

Management Discussion and Analysis

In this Management Discussion and Analysis (MD&A) section, Saskatchewan Transportation Company (STC) Management discusses the results of its 2008 third quarter operations in context of both comparing the corresponding quarter and year to date results to the previous year (2007). This MD&A also presents any corporate issues, which arose in the third quarter, that are expected to impact the Corporation's fiscal position.

Passenger Service:

In the first three quarters of 2008, STC coaches traveled 2,373,954 miles, serving 278 Saskatchewan communities.

In the third quarter of 2008, revenues from passenger operations were \$1,818,000, down from \$1,886,000 in the third quarter of 2007. Year to date passenger revenues were \$5,605,000, compared to \$5,532,000 in the same period of 2007.

Expenses associated with operating passenger services in the third quarter were \$2,469,000, up from the 2007 figure of \$2,267,000. Year to date passenger operating expenses were \$7,392,000, compared to \$6,746,000 in the same period of 2007.

Operating losses for passenger services in the third quarter were \$651,000, compared to the loss of \$381,000 in the third quarter of 2007. Year to date losses were \$1,787,000, compared to a loss of \$1,214,000 in the same time period of 2007.

Overall, year to date revenues from passenger services were up \$45,000 from projected budget revenues.

Express Service:

Through its network of 191 agents in the province and interconnecting arrangements with other carriers, STC hauls freight throughout the province and connects to destinations across North America. Express services tend to be somewhat seasonal, with increased freight activity generally occurring during farm seeding, harvest, and the Christmas holiday season.

In the third quarter of 2008, revenues from express operations were \$1,854,000, down from \$1,870,000 in the third quarter of 2007. Year to date express revenues were \$5,206,000, compared to \$5,084,000 in the same period of 2007.

Expenses associated with operating express services in the third quarter were \$1,332,000, up from the 2007 figure of \$1,280,000. Year to date express operating expenses were \$3,931,000, compared to \$3,776,000 in the same period of 2007.

Profits realized for express operations in the third quarter were \$522,000, compared to the profit of \$590,000 in the third quarter of 2007. Year to date profits were \$1,275,000, compared to a profit of \$1,308,000 in the same period of 2007.

Overall, year to date revenues from express operations were up \$25,000 from projected budget revenues.

Maintenance Services:

STC operates two garages in Saskatchewan. Major bus repairs and maintenance service occurs at the Saskatoon garage, while the Regina facility handles all minor bus servicing. In addition, the Corporation provides contracted maintenance services and leases storage space to other bus companies in these facilities.

In the third quarter of 2008, expenses associated with maintenance services were \$818,000, compared to the 2007 figure of \$718,000. Year to date maintenance expenses were \$2,539,000, compared to \$2,382,000 in the same period of 2007.

Financial Services:

Overall, revenues for the third quarter of 2008 were \$3,955,000, compared to \$4,072,000 in the third quarter of 2007. Year to date revenues were \$11,658,000, compared to \$11,588,000 in the same period of 2007. Expenses for the third quarter of 2008 were \$5,977,000, compared to \$5,526,000 in the same period of 2007. Year to date expenditures were \$17,857,000, compared to \$16,409,000 in the same period of 2007.

The Corporation's loss, before grants, in the third quarter was \$2,022,000, compared to \$1,454,000 in 2007. Year to date losses were \$6,199,000, compared to \$4,821,000 in the same period of 2007.

STC was approved for an operating grant of \$7.0 million from its holding company, the Crown Investments Corporation of Saskatchewan. Current projections for the year, based on the third quarter results, indicate that the Corporation will require approximately \$6.5 million of the \$7.0 million authorized. In the third quarter, STC drew down \$1,700,000 of the grant funds available from CIC. STC had no outstanding loans or indebtedness in the quarter.

At the end of the quarter, the Government's equity in STC stood at \$10,222,000, compared to \$10,216,000 at the same time last year, primarily as a result of the construction of the new Regina head office and depot.

Future Accounting Changes - International Financial Reporting Standards (IFRS):

In February, 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises, including the Saskatchewan Provincial Crown Corporations, will be required to adopt IFRS in place of Canadian Generally Accepted Accounting Principles (GAAP) for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures for the prior year.

STC has commenced an IFRS conversion project including initiating the development of a high level IFRS implementation plan. An external advisor has been engaged to assist with the development of this plan and to perform a detailed review of major differences between current Canadian GAAP and IFRS. Board members have been briefed on IFRS and a Project Plan is expected to be reviewed by the Board in November 2008 and submitted to CIC for December 31, 2008.

Staff from STC have participated in detailed IFRS training seminars. A project team has been created and has completed an initial assessment of those international financial reporting standards with the highest potential for impact. Based on the analysis to date, the most significant areas of difference are related to accounting for property, plant and equipment, leases, impairments, and financial statement disclosures. Crown sector working groups have been formed to review identified standards in detail and discuss specific issues as a basis for ensuring common understanding and, where possible, consistency in approaches to issue resolution among the Crown Corporations. Selection of specific accounting policies has begun. At this time, the impact on the STC's processes, systems, internal controls over financial reporting and disclosures, future financial position, and results of operations is not reasonably determinable. Draft business impacts and IFRS financial statements are anticipated in the second half of 2009.

As part of the IFRS implementation, STC plans to make changes to certain processes and systems before 2010 to ensure transactions are recorded in accordance with IFRS for comparative reporting purposes on the required implementation date.

Other:

During the third quarter, construction continued on the new Regina passenger and freight depot and head office. This facility will open on November 4, 2008.

Year to date ridership was 201,098, compared to 198,429 in the same period of 2007, an increase of 1.3%.

Saskatchewan Transportation Company
Statement of Financial Position
(unaudited - thousands of dollars)

	As at Sept. 30, 2008	As at December 31, 2007
Assets		
Current		
Cash	\$ 1,520	\$ 1,617
Accounts receivable	1,380	2,047
Inventories	396	370
Prepaid expenses	403	438
	<hr/> 3,699	<hr/> 4,472
Property, plant and equipment	39,046	34,548
	<hr/> \$ 42,745	<hr/> \$ 39,020

Liabilities and Province's Equity

Current		
Accounts payable and accrued liabilities	\$ 1,970	\$ 3,896
Deferred capital grant	30,553	24,874
Province of Saskatchewan's Equity		
Retained earnings	10,222	10,250
	<hr/> \$ 42,745	<hr/> \$ 39,020

Saskatchewan Transportation Company
Statement of Operations and Retained Earnings
(unaudited - thousands of dollars)

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Revenue				
Express services	\$ 1,854	\$ 1,870	\$ 5,206	\$ 5,084
Passenger services	1,818	1,886	5,605	5,532
Other	283	312	854	889
Gain (loss) on disposal of property, plant and equipment	-	4	(7)	83
	<u>3,955</u>	<u>4,072</u>	<u>11,658</u>	<u>11,588</u>
Expenses				
Operating	4,619	4,265	13,862	12,904
Administration	899	786	2,568	2,146
Amortization	459	475	1,427	1,359
	<u>5,977</u>	<u>5,526</u>	<u>17,857</u>	<u>16,409</u>
Loss before the following	(2,022)	(1,454)	(6,199)	(4,821)
Operating Grant	1,700	1,750	5,200	3,750
Capital Grant	305	344	971	997
Net income (loss)	(17)	640	(28)	(74)
Retained earnings, beginning of period	10,239	9,576	10,250	10,290
Retained earnings, end of period	\$ 10,222	\$ 10,216	\$ 10,222	\$ 10,216

Saskatchewan Transportation Company
Statement of Cash Flows
(unaudited - thousands of dollars)

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Operating Activities				
Net income (loss)	\$ (17)	\$ 640	\$ (28)	\$ (74)
Items not involving cash:				
Amortization	459	475	1,427	1,359
Loss (gain) on disposal of property, plant and equipment	-	(4)	7	(83)
Recognition of capital grant	(305)	(344)	(971)	(997)
Net change in non-cash working capital	25	22	(1,250)	(1,448)
Cash provided by (used in) operating activities	162	789	(815)	(1,243)
Investing Activities				
Additions to property, plant and equipment	(1,680)	(4,492)	(5,925)	(10,990)
Proceeds on disposal of property, plant and equipment	-	12	(7)	139
Cash used in investing activities	(1,680)	(4,480)	(5,932)	(10,851)
Financing Activities				
Capital grant received	1,400	4,750	6,650	11,450
Cash used in financing activities	1,400	4,750	6,650	11,450
Increase (Decrease) in cash	(118)	1,059	(97)	(644)
Cash, beginning of period	1,638	85	1,617	1,788
Cash, end of period	\$ 1,520	\$ 1,144	\$ 1,520	\$ 1,144

Saskatchewan Transportation Company
Notes to Financial Statements
(unaudited)

1. Basis of Presentation and Significant Accounting Policies

The interim financial statements of the Saskatchewan Transportation Company (the Company) have been prepared by management in accordance with Canadian generally accepted accounting principles. Certain information and disclosures normally required to be included in the notes to annual financial statements have been condensed or omitted. The interim financial statements should be read in conjunction with the financial statements and notes thereto in the Company's annual report for the year ended December 31, 2007.

These financial statements have been prepared following the same accounting principles as the financial statements for the fiscal year ended December 31, 2007.

2. Seasonal Nature of Express Revenues

Historically, STC's express service tends to be seasonal with the first quarter being slightly lower and the fourth quarter being slightly higher than the second and third quarters. This is due to the absence of significant agricultural activity in the first quarter and the increase in holiday shipping in the fourth quarter of the year.