

# **Saskatchewan Transportation Company**

**Third Quarter Report 2009**

# **2009 3rd Quarter Corporate Reporting**

## **1. Management Discussion and Analysis**

- Passenger Services
- Express Service
- Maintenance Services
- Financial Summary
- Future Accounting Changes

## **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 2008 Annual Report**

# Management Discussion and Analysis

The following Management Discussion and Analysis (MD&A) provides insight into the Saskatchewan Transportation Company's (STC) operations in the third quarter of 2009. From a management perspective, it highlights the primary factors that impacted our operations and the financial results of the Company over the past nine months.

This MD&A compares the operational outcomes of the third quarter of 2009 to the corresponding quarter in the previous year (third quarter of 2008) and to the anticipated financial position of the Company over the full year. It also discusses any emerging issues that will have an impact on the Company's fiscal position.

## Passenger Services:

In the first three quarters of 2009, STC coaches traveled approximately 2,366,000 miles, serving 290 Saskatchewan communities. This is an increase of seven (7) communities from the previous year and includes new communities served on the La Loche – Prince Albert route, effective March 2009.

Revenues from passenger operations in this quarter were \$1,713,000, down from \$1,818,000 in revenues reported in the third quarter of 2008. Year to date passenger revenues were \$5,011,000, compared to \$5,605,000 for the same period in 2008.

Expenses associated with operating passenger services in this quarter were \$2,663,000, up from the 2008 figure of \$2,469,000. Year to date passenger operating expenses were \$8,165,000, up from the 2008 total for the same period of \$7,392,000.

Operating losses for passenger services in the quarter were \$950,000, compared to a loss of \$651,000 in the third quarter of 2008. Year to date losses were \$3,154,000, compared to a loss of \$1,787,000 for the same period in 2008.

In 2008, Canada's bus industry was impacted by an unprecedented tragic event on a Greyhound bus travelling in Manitoba. The industry, including STC, responded with new security measures, but experienced reductions in ridership. STC continues to feel the negative impacts of this event with monthly ridership down approximately 10% from the months preceding the tragic event.

Total ridership for the first three quarters of 2009 was 192,337, compared to 201,098 in the same period of 2008, a decrease of approximately 4%. The improvement in ridership from an average monthly loss of approximately 10% to a year-to-date loss of 4% is attributable to STC's continued seat sale trials. The September seat sale targeting seniors was very successful in generating increased ridership, yielding an increase in senior passenger numbers of over 200% in the month of September.

As part of an effort to attract riders that have been lost over the past year, STC did not increase its passenger fares in 2009.

### **Express Service:**

Through its network of close to 200 agents in the province and interconnecting arrangements with other carriers, STC hauls freight throughout the province and connects to destinations across North America.

In the third quarter of 2009, revenues from express operations were \$1,971,000, up from the revenues of \$1,854,000 reported in the third quarter of 2008. Year to date express revenues were \$5,476,000 as compared to \$5,206,000 for the same period in 2008.

Expenses associated with operating express services in the third quarter of 2009 were \$1,328,000, down from the 2008 third quarter figure of \$1,332,000. Year to date express operating expenses were \$4,044,000, as compared to \$3,931,000 for the same period in 2008.

Profits realized for express operations in the third quarter were \$643,000, compared to a profit of \$522,000 in the third quarter of 2008. Year to date profits were \$1,432,000 compared to \$1,275,000 for the same period of 2008.

### **Maintenance Services:**

STC operates two service garages, one in Saskatoon for major bus servicing, and one in Regina for routine servicing and maintenance.

In the third quarter of 2009, expenses associated with maintaining the Company's fleet were \$677,000, a decrease compared to \$703,000 in the third quarter of 2008. Year to date maintenance expenses for the Company's fleet were \$2,294,000 as compared to \$2,207,000 for the same period of 2008.

The Company also uses these facilities to perform maintenance work for other transportation companies. The revenues derived from this service in the third quarter of 2009 were \$196,000 compared to \$181,000 in the third quarter of 2008. Year to date revenues were \$500,000 compared to \$520,000 for that same period in 2008. Expenses associated with such work were \$126,000 in the third quarter of 2009 compared to \$115,000 in the third quarter of 2008. Year to date expenses for third party maintenance work were \$302,000 compared to \$332,000 for the same period of 2008.

### **Financial Summary:**

Overall, STC's revenues for the third quarter of 2009 amounted to \$3,975,000, compared to \$3,955,000 in the third quarter of 2008. Year to date revenues were \$11,301,000 as compared to \$11,658,000 for the same period of 2008.

Expenses for the third quarter were \$6,269,000, compared to \$5,977,000 for 2008. Year to date expenses were \$19,409,000 as compared to \$17,857,000 for the same period of 2008.

The Company's loss before grants for the quarter was \$2,294,000, compared to \$2,022,000 in the third quarter of 2008. Year to date losses were \$8,108,000 as compared to \$6,199,000 for the same period of 2008.

STC has been approved for an operating grant of \$7.8 million from its holding company, the Crown Investments Corporation (CIC) of Saskatchewan. Current projections for the year, based on the third quarter, indicate that the Company will require the full amount of grant funding. Depending on the results of the Company's cost containment efforts, additional funding may be required as a result of the lower than expected ridership in 2009.

In this year's first three quarters, STC drew down \$6,700,000 of the grant funds available from CIC. STC had no outstanding loans or indebtedness in the quarter.

At the end of this quarter, the Government's equity in STC was \$9,530,000 compared to \$10,222,000 in the third quarter of 2008.

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

In February, 2008, the Canadian Institute of Chartered Accountants (CICA) Accounting Standards Board confirmed that publicly accountable enterprises 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. The Public Sector Accounting Board (PSAB) in September 2009, approved an amendment to the introduction to the Public Sector Accounting Handbook confirming the direction which requires Government Business Enterprises (GBEs) to adopt IFRS and Other Government Organizations (OGOs) to adopt either IFRS or the public sector handbook, whichever is considered the most appropriate basis of accounting. CIC believes that IFRS is the most appropriate basis of accounting for all its subsidiaries and therefore the Saskatchewan Transportation Company (STC) as an OGO is proceeding with adoption of IFRS.

STC has commenced an IFRS conversion project including initiating the development of a high level IFRS implementation plan which include stakeholder identification, milestones and deadlines, planned scope and approach, risks and mitigations, project governance and accountability responsibilities, and resource requirements. An external advisor was engaged to assist with the development of this plan and performed a detailed review of major differences between current Canadian GAAP and IFRS.

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, and financial statement disclosures. At this time, the impact on STC's processes, systems, internal controls over financial reporting and disclosures, future financial position, and results of operations is not reasonably determinable. Draft impacts on processes, systems and controls as well as draft IFRS financial statements presentation formats are anticipated in the last quarter 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.

# Saskatchewan Transportation Company

## Statement of Financial Position

(unaudited - thousands of dollars)

	As at September 30, 2009	As at December 31, 2008
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 814	\$ 2,676
Accounts receivable	1,537	1,560
Inventories	374	383
Prepaid expenses	436	437
	<hr/> 3,161	<hr/> 5,056
Property, plant and equipment	39,600	40,523
	<hr/> \$ 42,761	<hr/> \$ 45,579

## Liabilities and Province's Equity

### Current

Accounts payable and accrued liabilities \$ 1,915 \$ 3,324

Deferred capital grant 30,851 32,365

### Province of Saskatchewan's Equity

Contributed Surplus 465 465

Retained earnings 9,530 9,425

---

\$ 42,761 \$ 45,579

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

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
<b>Revenue</b>				
Express services	\$ 1,971	\$ 1,854	\$ 5,476	\$ 5,206
Passenger services	1,713	1,818	5,011	5,605
Other	285	283	785	854
Gain on disposal of property, plant and equipment	6	-	29	(7)
	3,975	3,955	11,301	11,658
<b>Expenses</b>				
Operating	4,794	4,619	14,805	13,862
Administration	821	899	2,642	2,568
Amortization	654	459	1,962	1,427
	6,269	5,977	19,409	17,857
Loss before the following	(2,294)	(2,022)	(8,108)	(6,199)
Operating grant	2,450	1,700	6,700	5,200
Capital grant	501	305	1,513	971
<b>Net profit/loss</b>	657	(17)	105	(28)
Retained earnings, beginning of period	8,873	10,239	9,425	10,250
<b>Retained earnings, end of period</b>	\$ 9,530	\$ 10,222	\$ 9,530	\$ 10,222

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

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
<b>Operating Activities</b>				
Net profit/(loss)	\$ 657	\$ (17)	\$ 105	(28)
Items not involving cash:				
Amortization	654	459	1,962	1,427
Gain on disposal of property, plant and equipment	(6)	-	(29)	7
Recognition of capital grant	(501)	(305)	(1,513)	(971)
Net change in non-cash working capital	(890)	25	(1,376)	(1,250)
<b>Cash provided by (used in) operating activities</b>	<b>(86)</b>	<b>162</b>	<b>(851)</b>	<b>(815)</b>
<b>Investing Activities</b>				
Additions to property, plant and equipment	(257)	(1,680)	(1,063)	(5,925)
Net change in non-cash working capital related to extraordinary item	-	-	-	(7)
Proceeds on disposal of property, plant and equipment	7	-	52	-
<b>Cash used in investing activities</b>	<b>(250)</b>	<b>(1,680)</b>	<b>(1,011)</b>	<b>(5,932)</b>
<b>Financing Activities</b>				
Capital grant received	-	1,400	-	6,650
<b>Cash provided by financing activities</b>	<b>-</b>	<b>1,400</b>	<b>-</b>	<b>6,650</b>
<b>Decrease in cash</b>	<b>(336)</b>	<b>(118)</b>	<b>(1,862)</b>	<b>(97)</b>
Cash, beginning of period	1,150	1,638	2,676	1,617
<b>Cash, end of period</b>	<b>\$ 814</b>	<b>\$ 1,520</b>	<b>814</b>	<b>1,520</b>

# **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, 2008.

These financial statements have been prepared following the same accounting principles as the financial statements for the fiscal year ended December 31, 2008.

### **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.