

Saskatchewan Transportation Company

Third Quarter Report 2012

For the quarter ending September 30, 2012

2012 3rd Quarter Corporate Reporting

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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 2012. 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 2012 to the corresponding quarter in the previous year (third quarter of 2011) 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 2012, STC coaches traveled approximately 2,367,000 miles, serving 287 Saskatchewan communities. Due to financial and operating pressures caused by Greyhound service reductions in Manitoba, STC reduced service frequency and adjusted endpoints on certain routes in the quarter. As a result, the number of Saskatchewan communities served has declined from the end of the previous quarter.

Revenues from passenger operations in this quarter were \$1,776,000 down from \$1,894,000 in revenues reported in the third quarter of 2011. Year to date passenger revenues were \$5,360,000, compared to \$5,693,000 for the same period in 2011.

Expenses associated with operating passenger services were \$2,918,000 down from the 2011 figure of \$2,934,000. Year to date passenger operating expenses were \$8,918,000, slightly up from the 2011 total for the same period of \$8,917,000.

Operating losses for passenger services in the quarter were \$1,142,000, compared to a loss of \$1,040,000 in the third quarter of 2011. Year to date losses were \$3,558,000, compared to a loss of \$3,224,000 for the same period in 2011.

Total ridership for the first three quarters of 2012 was 203,772, compared to 218,004 in the same period of 2011, a decrease of approximately 6.5%. This decrease is primarily due to the effects of service changes by Greyhound in neighbouring provinces.

STC last implemented a 4.76% passenger fare increase effective April 1, 2012.

Express Services:

Through its network of 195 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 2012, revenues from express operations were \$1,966,000, down from the revenues of \$2,059,000 reported in the third quarter of 2011. Year to date express revenues were \$5,562,000 as compared to \$5,745,000 for the same period in 2011.

Expenses associated with operating express services in the third quarter of 2012 were \$1,457,000, up from the 2011 third quarter figure of \$1,440,000. Year to date express operating expenses were \$4,304,000, as compared to \$4,246,000 for the same period in 2011.

Profits realized for express operations in the third quarter were \$509,000, compared to a profit of \$619,000 in the third quarter of 2011. Year to date profits were \$1,258,000 compared to \$1,499,000 for the same period of 2011.

STC last implemented an express rate increase effective February 1, 2012.

Maintenance Services:

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

In the third quarter of 2012, expenses associated with maintaining the Company's fleet were \$850,000, an increase compared to \$806,000 in the third quarter of 2011. Year to date maintenance expenses for the Company's fleet were \$2,681,000 as compared to \$2,513,000 for the same period of 2011.

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 2012 were \$94,000 compared to \$145,000 in the third quarter of 2011. Year to date revenues were \$288,000 compared to \$431,000 for that same period in 2011. The decrease in revenues year over year is primarily due to the reduction in coach servicing performed for Greyhound.

Expenses associated with such work were \$56,000 in the third quarter of 2012 compared to \$97,000 in the third quarter of 2011. Year to date expenses for third party maintenance work were \$161,000 compared to \$288,000 for the same period of 2011.

Financial Summary:

Overall, STC's revenues for the third quarter of 2012 amounted to \$3,954,000, compared to \$4,204,000 in the third quarter of 2011. Year to date revenues were \$11,565,000 as compared to \$12,204,000 for the same period of 2011.

Expenses for the third quarter were \$6,889,000, compared to \$6,778,000 for 2011. Year to date expenses were \$20,842,000 as compared to \$20,541,000 for the same period of 2011.

The Company's loss before grants for the quarter was \$2,935,000, compared to \$2,574,000 in the third quarter of 2011. Year to date losses were \$9,277,000 as compared to \$8,337,000 for the same period of 2011.

STC has been approved for an operating grant of \$9.2 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.

In this year's first three quarters, STC drew down \$7,100,000 of the operating grant funds available from CIC. STC had no outstanding loans or indebtedness at the end of the quarter.

At the end of this quarter, the Province of Saskatchewan's equity in STC was \$7,602,000 compared to \$8,419,000 in the third quarter of 2011.

Saskatchewan Transportation Company
Statement of Financial Position
(unaudited)

	(Thousands of Dollars)	
	As at September 30, 2012	As at December 31, 2011
Assets		
Current		
Cash	\$ 630	\$ 2,606
Accounts receivable	1,225	1,422
Inventories	349	376
Prepaid expenses	392	482
	<u>2,596</u>	<u>4,886</u>
Non-current		
Property and equipment	36,237	35,735
	<u>\$ 38,833</u>	<u>\$ 40,621</u>
Liabilities and Province's Equity		
Liabilities		
Current		
Trade and other payables	\$ 2,421	\$ 3,333
Non-current		
Deferred capital grant	28,810	29,257
	<u>31,231</u>	<u>32,590</u>
Province of Saskatchewan's Equity		
Contributed surplus	465	465
Retained earnings	7,137	7,566
	<u>7,602</u>	<u>8,031</u>
	<u>\$ 38,833</u>	<u>\$ 40,621</u>

See accompanying notes

Saskatchewan Transportation Company
Statement of Comprehensive Income
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
	(Thousands of Dollars)			
Revenue				
Express services	\$ 1,966	\$ 2,059	\$ 5,562	\$ 5,745
Passenger services	1,776	1,894	5,360	5,693
Other	212	251	645	766
Loss on disposal of property and equipment	-	-	(2)	-
	<u>3,954</u>	<u>4,204</u>	<u>11,565</u>	<u>12,204</u>
Expenses				
Operating costs other than those listed below	2,466	2,471	7,434	7,468
Salaries, wages and short-term employee benefits	3,742	3,633	11,410	11,047
Depreciation	681	674	1,998	2,026
	<u>6,889</u>	<u>6,778</u>	<u>20,842</u>	<u>20,541</u>
Loss before the following	(2,935)	(2,574)	(9,277)	(8,337)
Operating grant	2,000	2,400	7,100	6,600
Capital grant	598	574	1,748	1,826
Net profit (loss) and comprehensive income	\$ (337)	\$ 400	\$ (429)	\$ 89

See accompanying notes

Saskatchewan Transportation Company
Statement of Changes in Equity
(unaudited)

(Thousands of Dollars)
Attributable to the Province of Saskatchewan

	Retained Earnings	Contributed Surplus	Total Equity
Balance at January 1, 2011	\$ 7,865	\$ 465	\$ 8,330
Net profit and comprehensive income	89	-	89
Balance at September 30, 2011	7,954	465	8,419
Balance at October 1, 2011	\$ 7,954	\$ 465	\$ 8,419
Net loss and comprehensive income	(388)	-	(388)
Balance at December 31, 2011	7,566	465	8,031
Balance at January 1, 2012	7,566	465	8,031
Net loss and comprehensive income	(429)	-	(429)
Balance at September 30, 2012	\$ 7,137	\$ 465	\$ 7,602

See accompanying notes

Saskatchewan Transportation Company
Statement of Cash Flows
(unaudited)

	Nine months ended September 30	
	(Thousands of Dollars)	
	2012	2011
Operating Activities		
Net profit (loss) and comprehensive income	\$ (429)	\$ 89
Items not involving cash:		
Depreciation	1,998	2,026
Loss on disposal of property and equipment	2	-
Recognition of capital grant	(1,748)	(1,826)
Net change in non-cash working capital	(598)	(594)
Cash used in operating activities	(775)	(305)
Investing Activities		
Additions to property and equipment	(2,501)	(401)
Proceeds on disposal of property and equipment	-	1
Cash used in investing activities	(2,501)	(400)
Financing Activities		
Capital grant received	1,300	550
Cash provided by financing activities	1,300	550
Decrease in cash	(1,976)	(155)
Cash, beginning of period	2,606	1,119
Cash, end of period	\$ 630	\$ 964

See accompanying notes

**Saskatchewan Transportation Company
Notes to Condensed Financial Statements
For the period-ended September 30, 2012**

1. Status of Saskatchewan Transportation Company

The Saskatchewan Transportation Company [STC; the Company] was originally established in 1946 by Order in Council #168 to act as a common carrier providing passenger service transportation, parcel express and freight services. STC's powers, duties and conditions were affirmed in 1993 by Order in Council #5. STC is continued under *The Crown Corporations Act, 1993*. STC is a corporation domiciled in Canada. The address of the Company's registered office and principal place of business is 1717 Saskatchewan Drive, Regina, SK, S4P 2E2.

The financial results of STC are included in the consolidated financial statements of Crown Investments Corporation of Saskatchewan [CIC].

The results included in these condensed interim financial statements should not be taken as indicative of the performance to be expected for a full year due to the seasonal nature of corporate operations.

2. Basis of preparation

a. Statement of compliance

These unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 – *Interim Financial Reporting*. These interim results do not include all the information required for full annual financial statements and should be read in conjunction with STC's audited annual financial statements for the year-ended December 31, 2011.

The condensed interim financial statements were authorized for issue by STC's Board of Directors on November 21, 2012.

b. Basis of measurement

The financial statements have been prepared on the historical cost basis.

c. Functional and presentation currency

These financial statements are presented in Canadian Dollars, which is the Company's functional currency.

d. Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. Provisions are made for slow moving and obsolete inventory. Depreciation is based on the estimated useful lives of property and equipment. Tangible assets are reviewed for impairment annually using estimates of recoverable amounts to determine if there is an impairment loss. The accrual for compensated absences is based on historical usage.

3. Significant accounting policies

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those applied in STC's audited annual financial statements for the year-ended December 31, 2011.