

Prince Albert
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MADE **IN Saskatchewan**
FOR **Saskatchewan**

North Battleford
Estevan
North Battleford
Moose Jaw
Melville
North Battleford
Findlater
Weyburn
Swift Current
Moose Jaw
Estevan
Findlater
Gravelbourg
Davidson
Leader
Prince Albert
Moose Jaw
Estevan
North Battleford
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www.stcbus.com



Corporate Mandate



The Saskatchewan Transportation Company is a Crown Corporation of the province of Saskatchewan. It was established by Government Order In Council in 1946. Its operations are governed by its Board of Directors, under the authority of [The Crown Corporations Act, 1993](#).

STC is a provincial coach company which provides safe, affordable and accessible bus passenger and freight service to Saskatchewan communities.

2002

ANNUAL REPORT

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Letter of Transmittal



Regina, Saskatchewan

March 31, 2003

To Her Honour
The Honourable Dr. L. M. Haverstock
Lieutenant Governor of the Province of Saskatchewan

Madame:

I have the honour to submit herewith the annual report of the Saskatchewan Transportation Company (STC) for the year ended December 31, 2002, in accordance with The Crown Corporations Act, 1993. The financial statements are in the form approved by the Treasury Board and have been duly certified by the Corporation's auditors.

I have the honour to be, Madame,

Your obedient servant,

A handwritten signature in black ink that reads "Maynard Sonntag".

Maynard Sonntag,
Minister of the Crown Investments Corporation of Saskatchewan

Report of the Chair of the Board

The theme for our 2002 Annual Report is "Made in Saskatchewan, For Saskatchewan". Over the course of the last year, the Board of Directors of the Saskatchewan Transportation Company has had numerous occasions to reflect on just how apt that theme is.

When it comes to being "for Saskatchewan", the primary concern of the Board is, and always has been, to ensure that the company is doing everything that it can to meet the needs of our customers and of our communities.

Therefore, it was rewarding when the company did customer service surveys over the summer, that 86 per cent of our clients rated the service STC supplies as either good or excellent. And a further 93 per cent said the service was necessary for their communities and necessary for the province.

STC has always had a history of good customer service, but customer service can always be improved. To this end, management, at the direction of the Board, endorsed the Saskatchewan Best customer service training offered by Tourism Saskatchewan. During the year, three staff members were trained to teach the course and, starting in 2003, the training will be conducted for 50 staff members a year.

The Balanced Scorecard used by all Crown Investments Corporation Crowns, defines overall corporate goals. Starting in 2003, the STC Scorecard will be revamped to emphasize the company's commitment to quality customer service.

Early in 2002, STC was audited by the Canadian Human Rights Commission for compliance with Canada's Employment Equity Act, which includes accessibility standards. Some deficiencies were found. The company was quick to commit to taking the remedial steps required to ensure that our facilities are accessible and welcoming to any staff or customers with disabilities. A major engineering study was undertaken, the results of which will be known in the spring of 2003.

During the year, we also had considerable reason to focus on the "made in Saskatchewan" portion of our theme.

Throughout the year, the Senate Subcommittee on Transportation, at the request of Transport Canada Minister David Collenette, held public hearings on the issue of whether or not intercity bus transportation should be deregulated. STC took part in those hearings in June.

STC management put its position forward to the Committee that bus regulation serves the needs of the people of rural Saskatchewan, in that the revenues from STC's high-traffic runs help to subsidize the unprofitable routes. In effect, regulation is one reason why STC can afford to operate a province-wide network.

STC's position in this regard was almost unique in the Committee hearings, as the driving force behind the company's position was not the maintenance of a profit margin, but was, instead, the maintenance of a level of service to communities which would not otherwise have bus service.

The Committee's report was released in late December, calling for "reverse onus" deregulation of the industry. In effect, companies would retain their current monopoly service on the routes they have, but any other operator could challenge that monopoly, and it would then be up to the company with the running rights to prove to a regulatory board why it should maintain exclusivity.

At the time of writing this report, there is no indication what action, if any, the federal government will take on the Senate report. But STC has been preparing for competition for the past four years, and we believe we are ready for it, should it come.

A major issue of 2002, which should have been a primary concern of any Board of Directors, and was certainly one for the STC Board, was the loss of public confidence caused by the failures, mismanagement and deceptive practices seen in a number of publicly traded companies.

To address this very real concern, we have included a new portion in this year's annual report outlining the governance measures STC has in place, and how these compare with the "best practices" model issued by the Toronto Stock Exchange for companies which trade there. I am pleased to report that STC stacks up very well in this comparison. We are pleased to be able to show the people of Saskatchewan that we are an open and accountable operation.



Janet Folk,
Chair of the Board

There is one more way in which STC is "Made in Saskatchewan, For Saskatchewan", and that is in our continuing commitment to affordability. Over the course of the year, STC carried about 266,000 Saskatchewan people to business meetings, to health care appointments, to school, to family visits. We traveled more than 3.2 million miles, and provided service to 275 communities.

We were able to accomplish this on an operating grant of only \$2.4 million.

That's value for money in anyone's books.

In closing I would like to take this opportunity to thank my fellow Board members for their hard work and support over the course of the year and to congratulate the staff and management of STC on a job well done.



Janet Folk,
Chair of the Board

Board of Directors



Seated, left to right:
Wally Sotski, Leo Weaver; Wayne Timoffee; Larry Schultz.

Standing, left to right:
Feyhan Al-Katib; Dawn Stanger, Corporate Secretary; Jim Hadfield, President and CEO; Janet Folk, Chair; Cecile DeBray, Holly Ann Knott.

Governance, Compliance and Accountability

The Board of Directors of the Saskatchewan Transportation Company believes the company, as a Crown corporation of the Government of Saskatchewan, owes a duty to taxpayers to demonstrate that STC is open, accountable and properly managed.

To that end, this Annual Report follows "best practices" as outlined by such agencies as the Conference Board of Canada and the Toronto Stock Exchange in disclosing relevant information. This report meets or exceeds all the requirements for disclosure as set out for Saskatchewan Crown corporations by the Crown Investments Corporation of Saskatchewan.

In this section, the responsibilities of the Board of Directors are laid out, along with a comparison of the Boards' actions to those required by private companies listed on the TSX.

Board of Directors

Janet Folk, Chair, Regina, Pensions and Benefits Manager, City of Regina, **unrelated**

Feyhan Al-Katib, Vice-Chair, Saskatoon, retired, **unrelated**

Cecile DeBray, Member, Duck Lake, Manager, Saskatchewan Housing Authority, **unrelated**

Jim Hadfield, Member, Regina, President and CEO of STC, **related**

Holly Ann Knott, QC, Member, Saskatoon, Lawyer, **unrelated**

Larry Schultz, Member, Fort Qu'Appelle, Business Owner, **related***

Wally Sotski, Member, Yorkton, Business President, **unrelated**

Wayne Timoffee, Member, Prince Albert, Supervisor, Weyerhaeuser Canada, **unrelated**

Leo Weaver, Member, Regina, Motor Coach Operator, STC, ATU representative, **related**

** In the case of Mr. Schultz, one of his business operations serves as a local agent for STC. Although it is only a small portion of his business, he is, by virtue of this partnership, a related director.*

Objectives and Principal Duties

1. The function of the Board of Directors is to act as stewards of the Corporation. The Board has a statutory authority and obligation to manage the affairs and business of the Corporation. While the fundamental objective of the Board is to act in the best interests of the Corporation, the Board has a responsibility to ensure congruence between shareholder expectations, Corporate plans and management performance.

2. In discharging its obligations, the Board's principal duties are:

- a) to provide leadership in setting the Corporation's long range strategic direction, and to approve the Corporation's overall strategic plan, operating goals, operating budget, performance indicators and the business plans established to achieve them;
- b) to participate with management in identifying the principal risks of the business in which the Corporation is engaged, to achieve a proper balance between risks incurred and potential returns to oversee the implementation of appropriate systems to manage the risks;
- c) to appoint, monitor and evaluate the performance of the President and CEO, taking appropriate action as warranted, and to provide for effective succession planning;
- d) to adopt policies and processes to enable effective communication with the shareholder, stakeholders and the public;
- e) to ensure the integrity of the Corporation's internal control and management information systems; and
- f) to develop practices to ensure that the Board functions independently of management.

Legal and Compliance Responsibilities

1. The Board has a responsibility to see that procedures are in place to ensure statutory responsibilities are met, that an effective Corporate compliance program has been established, and that Corporate documents and records are properly prepared, approved and maintained.

AUDIT AND FINANCE COMMITTEE**1. Composition**

The committee is made up of four Directors of the corporation, with Feyhan Al-Katib as Chair. The other members are Janet Folk, Holly Ann Knott and Wally Sotski. CEO Jim Hadfield is an ex-officio member. The committee is appointed annually by a resolution of the Board.

2. Objectives

The Committee shall be advisory to the Board and in such capacity shall:

- (a) oversee the financial management of STC to ensure the integrity of internal financial processes;
- (b) provide relevant and timely financial information to the Board; and,
- (c) oversee the appointment of the external auditor and ensure proper follow up of audit results.

PLANNING, PRIORITIES AND GOVERNANCE COMMITTEE**1. Composition**

The committee is made up of four Directors of the corporation, with Wayne Timoffee as Chair. The other members are Cecile DeBray, Leo Weaver and Larry Schultz. CEO Jim Hadfield is an ex-officio member. The committee is appointed annually by a resolution of the Board.

2. Objectives

The Committee shall be advisory to the Board and in such capacity shall:

- (a) be responsible for, and report to the Board concerning the corporate governance processes of the Board, and the strategic planning processes of the Corporation;
- (b) oversee the Corporation's human resource strategies, programs and practices; and,
- (c) ensure the Corporation is proactive in addressing safety, health and environment issues and is in compliance with all statutory requirements.

SELECTION COMMITTEE**1. Composition**

The committee is made up of three Directors of the corporation, with Janet Folk, Chair of the Board, as Chair. The other members are Feyhan Al-Katib, Chair of A&F Committee and Wayne Timoffee, Chair of PP&G Committee. The committee is appointed annually by a resolution of the Board.

2. Objectives

The Committee shall be advisory to the Board and in such capacity shall:

- (a) make recommendations on the composition and complement of the Board of Directors;
- (b) make recommendations on the appointment of the Chair of the Board;
- (c) conduct annual CEO performance evaluations; and
- (d) make recommendations on the recruitment of the President and CEO.

TSX Corporate Governance Guidelines	Board Responsibility & Action	2002 Compliance Board Item #
Part 1: The Board should explicitly assume responsibility for the stewardship of the Corporation, specifically for:	<i>Note: all Board Items referred to are on file at STC's corporate head office, 2041 Hamilton Street, Regina, Sask. S4P 2E2</i>	
1. Adoption of a strategic planning process	Reviewed by PP&G, adopted by Board	02-31, and 02-65
2. Identification of the principal risks of the Corporation's business and ensuring the implementation of an appropriate system to manage these risks.	Reviewed by PP&G, adopted by Board	02-65
3. Succession Planning, including appointing, training and monitoring senior management.	Reviewed by PP&G, adopted by Board	02-40
4. A communications policy for the Corporation.	Reviewed by PP&G, adopted by Board	02-65
5. The integrity of the Corporation's internal control and management information systems.	Reviewed by A&F, adopted by Board	02-27
Part 2: The Board of Directors of every Corporation should be constituted with a majority of individuals who qualify as unrelated directors (i.e.: one who is independent of management and is free from any interest in any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Directors' ability to act with a view to the best interests of the Corporation, other than interests and relationships arising from shareholding).	Six of nine are unrelated directors (see Terms of Reference)	02-17, 02-18, 02-19, and 02-20
Part 3: Disclosure of significant shareholders (ability to exercise a majority of votes to elect Directors).	N/A; Crown corporation without private shareholding	
Part 4: The Board is required to disclose on an annual basis the analysis of the application of the principles supporting the conclusion of whether the Director is related or unrelated.	See Board listing, terms of reference	02-17, 02-18, 02-19, and 02-20
Part 5: The Board of Directors of every Corporation should appoint a committee of Directors composed exclusively of outside Directors (non management) the majority of whom are unrelated Directors, with responsibility to propose to the full Board new nominees to the Board and for assessing Directors on an ongoing basis.	Selection Committee all outside, non-related Directors	02-20
Part 6: Every Board of Directors should implement a process to be carried out by the nominating committee or other appropriate committee, for assessing the effectiveness of the Board as a whole, the committees of the Board and the contribution of individual Directors.	Reviewed by PP&G, adopted by Board	02-53
Part 7: Every Corporation, as an integral element of the process for appointing new Directors, should provide an orientation and education program for new recruits to the Board.	Board training provided by CIC; corporate orientation provided by Management	
Part 8: Every Board of Directors should examine its size and, with the view to determining the impact of the number on effectiveness, undertake where appropriate, a program to reduce the number of Directors to a number which facilitates more effective decision-making.	Responsibility of Selection Committee	

<p>Part 9: The Board of Directors should review the adequacy and form of the compensation of Directors to ensure the compensation realistically reflects to responsibilities and risk involved in being an effective Director.</p>	<p>Compensation rates set by CIC</p>	
<p>Part 10: 1. A committee should generally be composed of non-management Directors.</p>	<p>Only one management member of Board, who is ex-officio to two committees</p>	
<p>2. The majority of committee members should be unrelated.</p>	<p>Selection and A&F Committees have no related directors; two of four on PP&G committee are related directors.</p>	
<p>Part 11: Every Board of Directors should expressly assume responsibility for, or assign to a committee of Directors, the general responsibility for developing the Corporation's approach to governance issues. This committee would, amongst other things, be responsible for the Corporation's response to these guidelines.</p>	<p>PP&G reviews, Board approves</p>	<p>02-17</p>
<p>Part 12: 1. The Board of Directors, along with the CEO, should develop position descriptions for the Board and for the CEO involving the definition of the limits to management responsibilities.</p>	<p>Selection Committee reviews; Board approves</p>	<p>02-43</p>
<p>2. The Board should provide or develop the Corporation's objectives which the CEO is responsible for meeting.</p>	<p>PP&G committee reviews; Board approves</p>	<p>02-51</p>
<p>Part 13: Every Board of Directors should have in place appropriate structures and procedures to ensure that the Board can function independently from management.</p>	<p>Board Terms of Reference</p>	<p>02-18</p>
<p>Part 14: The audit committee of every Board should be composed of only outside directors. The roles and responsibilities of the audit committee should be specifically defined so as to provide appropriate guidance to committee members as to their duties. The audit committee should have direct communications channels with the external and internal auditors to discuss and review specific issues, as appropriate. The audit committee's duties should include oversight responsibility for management reporting on internal control. It is the responsibility of the audit committee to ensure that management has designed and implemented an effective system of internal controls.</p>	<p>No inside or related directors on A&F; Terms of Reference sets out duties</p>	<p>02-17, 02-18, 02-19, and 02-20</p>
<p>Part 15: The Board of Directors should implement a system which enables the individual Director to engage an outside advisor at the expense of the Corporation in appropriate circumstances. The engagement of an outside advisor should be subject to the approval of the appropriate committee of the Board.</p>	<p>Board Terms of Reference</p>	<p>02-18</p>

2002 Corporate Profile

- Established 1946 by Order-In Council; has operated continuously
- Serves 275 communities in Saskatchewan
- Operates 28 bus routes, travelling more than 3.2 million miles per year
- Has a fleet of 38 coaches and vans, varying in size from 55-seater to 15-seater, as well as a freight truck and freight trailers
- Has 205 agents operating in rural Saskatchewan
- Operates passenger and express depots in Regina, Saskatoon and Prince Albert
- Operates service garages in Regina and Saskatoon
- Maintains its Head Office in Regina
- Employs 234 people (191 full-time and 43 part-time); 206 employees are in-scope, 28 employees out-of-scope. In-scope employees are represented by the Amalgamated Transit Union, Local 1374
- Has an annual payroll of \$8.8 million
- Has assets of \$19.3 million (2001 -- \$18.5 million)
- Operating expenditures in 2002 \$17.5 million (2001 -- \$17.0 million); Revenues in 2002 \$13.4 million (2001 -- \$13.6 million)
- Capital expenditures \$1.8 million (2001 -- \$2.0 million)

Passenger Services:

This unit is responsible for all aspects of ensuring STC's passengers enjoy a safe and reliable trip. Within this unit are the Motor Coach Operators, Passenger Service Attendants and Custodians. The rural agencies provide services to this unit as well. It is STC's largest employee complement.

Express Services:

This unit is responsible for freight and baggage handling for STC and connector buses, with staff in all three depots. It receives and delivers freight to and from customers. Pick Up and Delivery services are available in Regina, Saskatoon and Prince Albert as well as some rural agencies.

Maintenance:

The primary responsibility of this unit is the maintenance, cleaning and storage of all company vehicles. This is done in service garages in Saskatoon and Regina. It is also responsible for on-the-road servicing of coaches, when required. This unit also provides maintenance, cleaning and storage to coaches of other carriers, done on a contract basis.

Finance:

This unit is responsible for the collection of revenues from customers and the payment of STC's suppliers. It has sub-units for billing, accounts receivable and collections, accounts payable, agencies, and reclaims (billing and paying connecting carriers, such as Greyhound, for services rendered). It is responsible for the company's budgeting, financial forecasting, corporate insurance and internal controls.

Information Systems:

This unit is responsible for the procurement of all corporate hardware and software. It ensures the reliability and integrity of data, electronic communications, software applications and web services to provide staff, customers and partners throughout the province with current, up-to-date computer systems and information.

Human Resources:

This unit handles all staff recruitment and placement, co-ordinates training, and administers compensation and benefit programs. It negotiates contract compliance between the company and the union. It is responsible for Occupational Health and Safety, anti-harassment programs, employment equity programs, accessibility programs, return to work programs and employee assistance programs.

Strategic Planning and Communications:

This unit is responsible for corporate communications, internally and externally. It is responsible for the preparation of corporate documents such as the Annual Report, Business Plan and Strategic Plan. It liaises with other Crowns and government agencies. It is responsible for forward planning and issues management for the company.



Garth Walker
Operations Assistant, Saskatoon, 18 years of service

Report of the President

It just wouldn't be the Saskatchewan Transportation Company if, on reviewing the year just completed, we didn't note that there were a number of challenges.

By the same token, it would not be the STC of recent years if we could not announce that we met those challenges head-on and emerged stronger, and better equipped to provide the people of Saskatchewan with the kind of intercity bus passenger and express service which they deserve.

The year 2002 was no exception. We faced our share of challenges, met them, and emerged, I feel, a stronger company as a result.

We have decided on the theme of "Made in Saskatchewan, For Saskatchewan", because it very aptly sums up what STC is and what it does.

STC is a Saskatchewan-based company, founded to meet Saskatchewan's particular needs, using solutions that are particular to Saskatchewan.

I had the opportunity to underscore this point over the summer when I appeared before a hearing of the Senate Subcommittee on Transportation, on the issue of intercity passenger bus deregulation. The committee had been asked to hold the hearings by Transport Canada Minister David Collette to form some opinions as to whether or not the industry should be deregulated.

I took the fairly unique position, that in the case of Saskatchewan, deregulation was more of a service issue for the provider than an economic one.

The issue facing STC is, if we lose exclusivity on some of our most important routes, that would indeed impact our return on investment. But ROI is not the reason STC exists. It is in place for the provision of a service.

The revenue the company earns on its more successful routes is used to help offset the costs associated with its less successful routes. Such has been the case for more than 20 years now. Ability to cross-subsidize service, rather than return on investment, has been the company's driving force.

The reason is very simple. Saskatchewan people built a bus service because we are a province of vast area and limited population. Intercity bus service is still the most cost-effective method of moving people within the province. In 2002, we moved about

266,000 people some 3.2 million miles, clearly demonstrating there is a need in this province for the service we provide.

A very good illustration of the importance STC has for the Saskatchewan economy, especially the rural economy, is the fact that in one month - July, 2002 - we moved 60,000 agricultural machinery parts throughout the province.

Another good illustration is that about 600 people per year use STC medical passes to travel from their home communities to their medical appointments.

As we all know, 2002 was a rough year for the rural economy in Saskatchewan. As STC is primarily involved in rural Saskatchewan, we saw this affect our bottom line.

Our revenues for 2002 were down slightly from the previous year, \$13,423,000, compared to \$13,651,000, while our expenditures increased slightly to \$17,462,000 from \$17,040,000. Overall, our loss for the year was \$4,039,000, up from \$3,389,000 the previous year.

At the same time, we were able to virtually maintain our operating grant requirements from our holding company, the Crown Investments Corporation of Saskatchewan, (\$2.4 million in 2002; \$2 million the previous year). This was accomplished through strict expenditure control.

STC continues to be caught in a cost squeeze, where inflationary pressures are forcing our costs up at a faster rate than our revenues are rising. We control costs and enhance revenues wherever possible to mitigate this situation.

In the cost-containment area, we made some changes to our service provision in 2002, eliminating about 94,000 miles from our scheduled service of more than three million miles. This resulted in annual savings of about \$124,000 and was accomplished with no elimination of service to communities

One area where we continue to see increases in revenues is charter services. Our 2002 revenues in this area rose to \$201,000 from about \$125,000 the previous year. It is likely that our revenues could have been higher, but STC does not actively compete against the private sector for charter business. We currently do not advertise for it, nor do we purchase

extra equipment or additional staff to handle the business. We only take a charter contract if we can commit to it using existing resources.

Any charter business we get is from people who come to us, specifically asking us to do the work. Our slight growth in this business is due to word-of-mouth promotion from satisfied customers, and the fact that we provide safe, reliable, competitive service.

We also had a rate increase of about five per cent on our passenger fares in 2002. Unlike other Crown corporations, STC does not have to submit rate changes to the independent rate review panel because its rates are already subject to regulation by the Highway Traffic Board.

During the year, STC managed to resolve long-standing issues of food service at its Regina and Saskatoon depots by attracting Robin's Donuts to service both locations.

There is one outstanding issue from 2002 which we have yet to deal with. Early in the year, an audit of our facilities was undertaken by the Canadian Human Rights Commission regarding our compliance with the Employment Equity Act, including accessibility requirements. Some deficiencies were found, particularly in regard to the Regina depot.

STC has undertaken to correct these deficiencies, and a full engineering study of what needs to be done was commissioned late in the year. We should have that report this spring.

As I said earlier, there have been challenges, but we have met them and are a stronger company for it.

We are "Made in Saskatchewan, For Saskatchewan" - the bus company that Saskatchewan people still need, still want, still value.



Jim Hadfield,
President and CEO

A handwritten signature in black ink, appearing to read "Jim Hadfield". The signature is stylized and cursive.

Jim Hadfield,
President and CEO

Mission Statement

STC will provide the highest level of passenger bus service in the province, consistent with its business needs and financial confines. In doing so, it will take whatever steps are necessary to contain expenditures, such that the subsidy required from its stakeholders can be held to a minimum.

STC will ensure that its freight operations function on at least a break-even basis.

Vision Statement

STC is the primary mover of people and freight in the Province of Saskatchewan. It provides transportation of people and goods which is safe, reliable and affordable. It protects the investment made by the people of Saskatchewan by providing the level of service required in the province's rural communities, while maintaining its losses at the minimum amount possible. While STC can, and will, compete effectively where it operates in a competitive environment, it will still deliver the same level of competitive service in those areas where it operates unopposed.

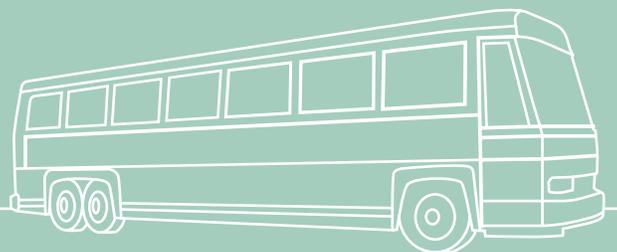
STC will maintain and improve its market share in both passengers and freight, and will continue to upgrade the service it offers the people of Saskatchewan.

STC will explore any and all methods of raising additional revenues, but never losing sight of the fact that it is, at the end of the day, a bus passenger service for the communities of Saskatchewan.

Corporate Values

We at STC believe that we can only do our job properly when we adhere to the following values:

- Honesty in all business transactions
- Dependability, not only in our vehicle operations, but in all facets of the company's work
- Placing the safety of our customers paramount to all other concerns
- Providing a safe work environment for all our employees
- Never accepting the status quo as the best possible outcome for our stakeholders
- A work environment which supports employment equity and offers opportunity for advancement to all employees
- Teamwork in decision-making; teamwork in implementing action
- Meeting all targets within our work units and within our corporation
- Searching for innovative solutions to the problems which arise
- Recognizing the contributions made by all employees to the company's successes
- Taking pride in our accomplishments, and admitting to our mistakes
- Developing and maintaining a positive approach to communications, internally and externally.



Management Discussion and Analysis

In this MD&A, STC Management will discuss trends in the bus industry in Canada, and will look at the company's three main components -- passenger service, freight operations and maintenance in regards to their operating and financial highlights for the year, the challenges which they faced, how they dealt with them, the challenges and opportunities down the road, and the outlook for future operations. Other facets of the company's operations will be discussed as well.

Industry Overview

The year 2002 was, in one major respect, a very important year for charting the future of STC. During the year, the Canadian Senate, through its subcommittee on transportation, held public hearings on the question of deregulating the intercity bus business in Canada. It did so at the request of Minister of Transport David Collenette, who has been studying the issue of deregulation for the past few years.

The committee heard from bus company operators, consumer groups, academics, industry experts and government agencies. STC took part in the hearings in June, when the company's President and CEO testified in Ottawa.

In late December, the Senate committee released its report, containing six recommendations. Those recommendations are:

- Deregulate the bus industry on a "reverse-onus" basis for a five-year trial period;
- Establish a five year, \$30 million a year subsidy program to help small independent operators provide service to communities who might lose it due to deregulation;
- Do a re-appraisal of regulations regarding accessibility to buses by those with physical handicaps;
- Ensure that smaller buses and vans used as buses meet the safety requirements of the National Safety Code;
- Examine how the use of bus transportation might be environmentally advantageous, particularly in light of the Kyoto Protocol; and,
- A re-evaluation of the federal government's position that a consensus of concerned jurisdictions is

needed in order to make changes to the regulatory environment for the bus industry.

The Senate's report and recommendations have been forwarded to Mr. Collenette and, at the time of writing, there is no indication what steps, if any, the federal government is prepared to undertake in terms of these recommendations.

There could, however, be considerable impact on STC's operations should the recommendations become policy.

The first, deregulating routes on the "reverse onus" basis - could have a long-term impact on STC's routes and its ability to continue operating to some service points. Currently, bus companies operate with running rights (essentially exclusivity) on the routes they operate. Under reverse onus deregulation, any competitor could announce its intention to compete on any route - in the STC case, the Regina to Saskatoon corridor, as an example - and then the onus would be on the company which currently holds the

Made IN Saskatchewan. FOR Saskatchewan

“Return on investment is not the reason STC exists. It is in place for the provision of a service.”

*Jim Hadfield
President and CEO*



Lorrie Carpenter
Coach Cleaner, Saskatoon,
17 years of service

running rights to prove to a regulatory board why it would not be in the public interest for it to lose its monopoly.

Most of STC's routes do not operate on a break-even basis, and the ones that do not are subsidized, in part, from the profits made on the other routes.

However, if STC were to lose its exclusivity on profitable routes, such as the Regina-Saskatoon corridor, it would see its profits drop and the money available to subsidize other routes would decrease. This, in turn, would seriously impact the company's ability to keep those other routes operating, or require substantially higher subsidies to keep them operating.

STC would have to take a serious look at discontinuing its service on some routes, particularly those in more remote areas of the province.

and depending on where the bar is set, this could prove costly for the company.

The same is true regarding the fourth recommendation, safety standards for small coaches. Currently, STC ensures that its small coaches meet the same safety standards as its large coaches, standards which meet or exceed those spelled out by the federal government. However, the Senate committee was concerned about the "survivability" of small coaches in an accident. If this leads to stricter manufacturing guidelines, it will increase the capital costs for such coaches.

STC agrees whole-heartedly that bus travel should be looked upon and promoted as an environmentally-friendly mode of transportation, particularly in regard to Kyoto, and is in full agreement with the fifth recommendation.

The company, however, does not agree at all with the last recommendation which would, in effect, allow the federal government to act unilaterally to change the regulatory environment of the industry. There are too many regional and local issues which must be given fair hearing before any such changes are made.

Despite what actions the federal government might decide to take on this issue, STC has been aware of the possibility of deregulation of the industry for four years now, and has been working to make itself ready for competition, should it come. The company has done this by expenditure controls to ensure it is on the strongest possible footing and by upgrading its already-high standards for customer service.

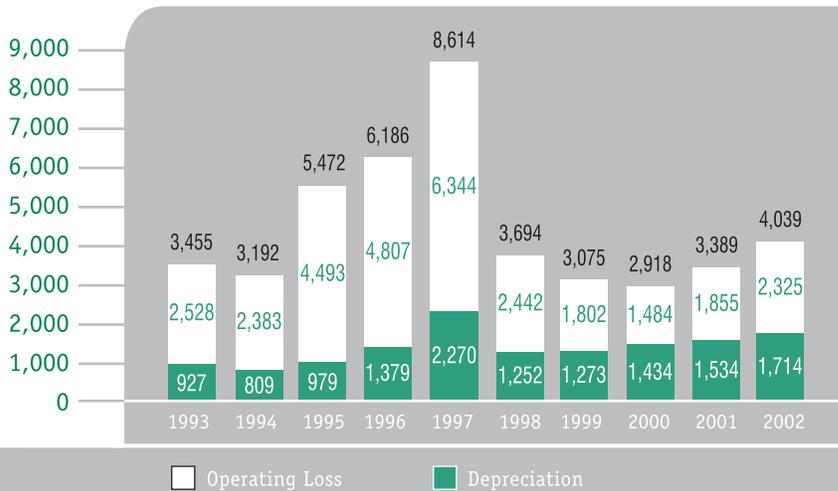
There are three other factors which impacted STC's operations in 2002 which can have a possible impact in 2003 and beyond.

Early in the year, the company received the results of a study on the accessibility of its facilities, part of an audit of the company's compliance with the federal Employment Equity Act. Some deficiencies were noted, and there will be capital costs involved in bringing the company's facilities up to standard. An engineering study as to what would be involved was commissioned in late 2002.

The age of the Regina garage facility, combined with water damage suffered by the Saskatoon garage, and some changes in the reinsurance industry resulted in a significant increase in STC's 2003 insurance costs, as compared to 2002.

Operating Deficits

(\$ 000's)



In anticipation of this fallout, the Senate put forward its second recommendation of a \$150 million subsidy program, which would be cost-shared between the federal government and/or the provincial and municipal governments. However, the Senate report makes clear it thinks this subsidy program should be applied to capital purchases, rather than operating expenses. It has been STC's experience with former and current private operators of small feeder bus services that they require operating subsidies, much more than capital assistance. It is questionable if this subsidy program would be any encouragement for local business operators or community groups to pick up services STC might be forced to discontinue.

In regards to the third recommendation, access for people with disabilities, STC is in relatively good shape, with about 17 per cent of our coaches equipped with wheelchair lifts, a figure which will rise to 21 per cent in the next five years. However, wheelchair lifts for buses are very capital intensive,

Made IN Saskatchewan. FOR Saskatchewan

Third, the Canada Customs and Revenue Agency has ruled that the Pick Up and Delivery Carriers, who work as independent contractors for STC, must be classified as employees in accordance with the Employment Insurance and Canada Pension Plan legislation. This makes the company liable for back-payments of EI and CPP premiums on behalf of nine employees.

Back payments in 2002 amounted to some \$107,000, and deductions from contract payments are now being made while the issue is being resolved.

Passenger Services

STC has, far and away, the bulk of the bus passenger business in Saskatchewan.

Greyhound runs two routes through the province (along the TransCanada Highway and along the Yellowhead Highway), and there are a number of small, locally-based carriers, serving only specific areas.

The company runs 28 routes in the province. The viability of those routes varies, as does, to a lesser degree, the equipment used by STC to service them. The smallest unit currently operated by STC is a 15-seat bus, and the largest is a 55-seat coach.

In 2002, STC received a capital grant of \$2.4 million from its chief stakeholder, the Crown Investments Corporation of Saskatchewan. Of that money, about \$1.8 million was designated for the purchase of new buses and freight trailers. As well, the company received a grant of \$2.4 million to help subsidize the cost of running unprofitable routes.

In 2002, STC operated more than 3.2 million miles of bus service in the province, providing connections to 275 communities. It carried about 266,000 passengers.

The company's cost per mile of carrying passengers was \$2.87, and the revenue per mile generated by passengers was \$2.03. This represents a per-mile subsidy of \$0.84.

In the course of the year, STC removed some 94,000 miles from its scheduled service. No communities lost access to STC service with this change. The annualized saving for the company is \$124,000.

In 2002, STC's revenues from passenger service were \$6,424,000, compared to \$6,454,000 the previous year. Its operating expenses were \$9,237,000, compared to \$9,009,000 in 2001.

STC's strengths in the passenger industry are two -- its virtual monopoly of operations in a large portion of the province, and its name recognition.

Its major weakness lies in the changing demographics of the province, which results in a shrinking potential marketplace.

Opportunities for the company in the bus passenger industry are limited, as the market for this service will likely continue to shrink or, at best, be stagnant. However, STC will continue to examine partnerships with other industries and other sources of revenue to try and pick up the shortfall.

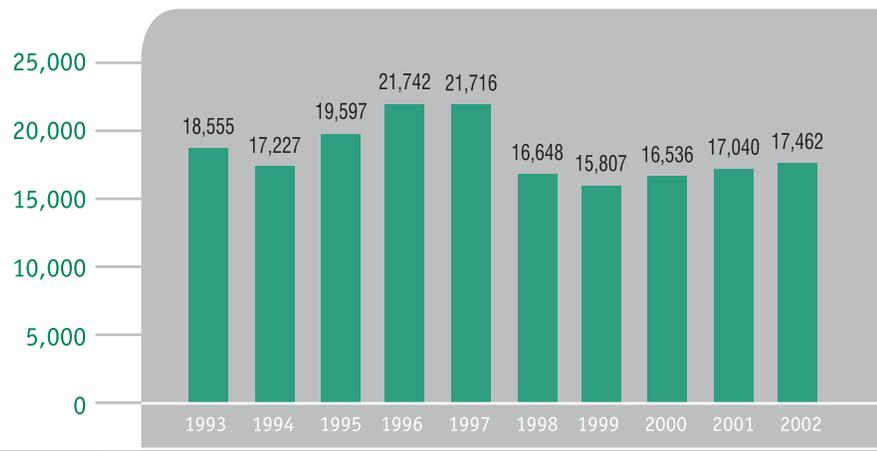
An ongoing threat to the company's passenger operations lies in the province's changing

“The driving force behind the company’s position (is) the maintenance of a level of service to communities which would not otherwise have bus service.”

*Janet Folk
Chair of the Board*

Operating Expenditures

(\$ 000's)



demographics. Continued urbanization, reliance on private automobiles, and development of the highway system will only further erode the company's client base.

A major threat facing the passenger service is the move towards deregulation, discussed earlier in this MD&A.

STC's passenger operations account for 79 full-time in-scope and 11 part-time in-scope employees.

Parcel Express Services

STC operates its freight business in a fully-competitive environment. It is in competition not only with other bus services, but also with trucking firms and courier services, as well as Canada Post.



Brent Kemp
Passenger Services
Attendant, Saskatoon,
26 years of service

In addition to providing overnight depot-to-depot service (in most cases), the company also provides a door-to-door pick up and delivery service in the major centers.

Since its inception, STC has been in the freight hauling business, and will continue to be as long as it is operating buses. The buses have the capacity to carry freight as well as passengers, so it makes sense to do so.

In many rural communities in Saskatchewan, STC has long been the primary carrier of parcels for personal, business, and farm usage.

An interesting statistic outlines the importance of STC express service to rural customers, particularly farming operations - in one month alone, July 2002, STC shipped 60,000 agricultural machinery parts throughout rural Saskatchewan.

STC has continued to equip some of its buses with trailers to carry additional freight, which allows the company to increase its hauling capacity (and revenue-generating capabilities) with only a minimal effect on expenditures.

Freight operations at STC garnered \$6,498,000 in revenues for 2002, compared to \$6,585,000 in 2001. Expenditures were \$4,250,000, compared to \$4,029,000 the previous year. That meant a profit of \$2,248,000 compared to \$2,556,000 the previous year.

Due to the extremely competitive nature of the freight business, STC does not have a lot of room within its tariff schedule for any significant increases.

STC's greatest strength in the freight business is the synergies it has with the passenger service. That is to say that, since the buses are running on a large network anyway, with room to carry freight, the over-the-road costs to the company for carrying freight are minimal. With the addition of trailers to the buses, this becomes even more of an advantage.

Other strengths of the company are name recognition, and its ability to provide next day delivery throughout much of the province. As well, it is one of the very few delivery systems in the province which provides weekend service to many points in Saskatchewan.

STC is very well suited for the transportation of parcels in the one pound to 30-pound range, which makes up approximately 80 per cent of its freight business. A lot of this is the result of walk-in, rather than regular, customers.

Its major weakness is that its system of freight tariffs cannot keep pace with increasing costs. STC rates are still somewhat below Western Canadian averages for bus parcel express service. In addition, some firms have been offering deep discounts to attract some major customers away from STC. STC has lost some of these customers, and must now try to win them back with price discounts of its own.

Increasing rates is not a sustainable method for the company to increase revenues. The competitive nature of the express business now fully dictates STC's express rates, and is currently keeping those rates low. Any

Made IN Saskatchewan. FOR Saskatchewan

STC protects the investment made by the people of Saskatchewan by providing the level of service required in the province's rural communities.

*Excerpt
STC Vision Statement*

sharp increases could result in a loss of market share.

The main threat to STC's express service is predatory pricing by competitors, which is sometimes difficult for STC to match because of its fixed costs -- mostly labour. Another threat, as with the passenger service, is the volatile cost of fuel.

The freight component of the business has 39 full-time in-scope and 22 part-time in-scope employees.

Maintenance Services

STC operates two service garages in the province, one in Saskatoon and one in Regina.

Traditionally, STC coaches have had a very high standard of maintenance, both in terms of mechanical reliability and cleanliness.

Because of the size of its facilities and the level of service provided, STC performs maintenance service for a number of other bus operators in the province.

In 2002, maintenance services cost the company \$2,047,000, compared to \$1,963,000 in 2001. Performing service for other operators brought in \$579,000 in revenues, compared to \$738,000 in the previous year.

The roof of the Saskatoon garage had to be replaced in 2002. Costs during the year amounted to \$188,000.

STC's maintenance strength is its staff, with their commitment to safety and quality work. Another area of strength is the homogenous nature of its fleet, which allows for a much smaller parts inventory.

Its weakness in this area is the need, because of the geographic size of the province, to operate two facilities rather than one. As well, although the age of the fleet is declining steadily, it is still a relatively older fleet and, as such, requires greater maintenance and service.

Threats and opportunities for the maintenance operation are both related to its ability to contract its service to private operators. The threat is, because of limited staff, STC will not be able to do as much business in this area as in past years. And the opportunity is that it will still be able to attract all the business it can handle with its reduced staff.

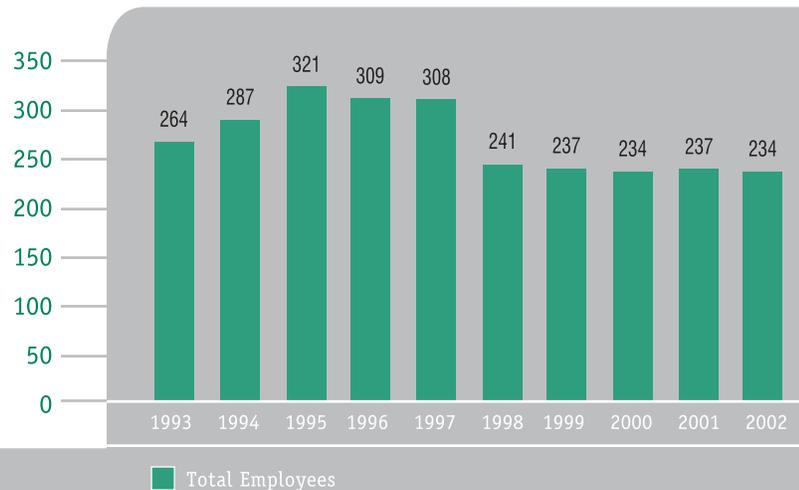
The maintenance operation has 27 full-time in-scope and eight part-time in-scope staff.

Other Issues

STC, because of the nature of the passenger bus industry in North America, has limited room for growth in its primary lines of business -- passenger and express services. So, the company is always looking for other ways by which to grow its revenue base.

One of these options is providing maintenance, cleaning and storage services to other bus companies. While this has been a lucrative venture for the company, limitations in staff and facility availability makes it a finite area of endeavor.

Employee History



One area where there has been noticeable growth in "other" revenues is with the operation of charters. STC does not compete with privately-owned companies for charter business. It does not currently advertise the service, and it has neither coaches nor employees designated for charters.

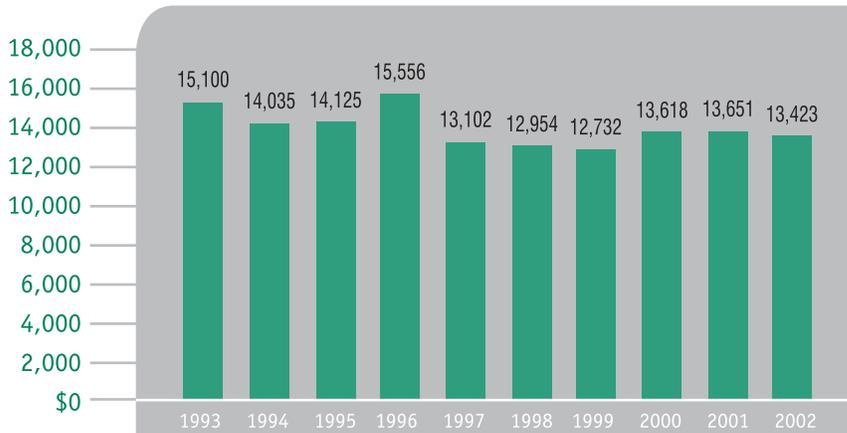
However, if somebody approaches the company with the offer of charter work, and if there is a coach and driver available, the company will take the contract.

As a result of word-of-mouth promotion by satisfied clients, STC has seen a steady growth in its charter business. In 2002, the company fulfilled 223 charters, bringing in revenues of \$201,000, compared to the previous year, where there were 150 charter contracts, with revenues of \$125,000 realized.

The company also leases out excess space, primarily at the Saskatoon garage and Saskatoon depot. In 2002,

Revenues

(\$ 000's)



this activity accounted for revenues of \$140,000. (2001 - \$135,000)

The company is also in the field of bus advertising, which began in 1999. In 2002, revenues raised through bus advertising amounted to \$45,000, compared to \$18,000 the previous year.

In 2001, STC installed vending devices, specifically automatic banking machines, in its depots as another method of gaining revenues. The revenues from this source amounted to \$9,000, compared to \$4,000 the previous year.

In 2002, STC made a major change at its two depots in Regina and Saskatoon, when it terminated the leases it held with its restaurant operators. This was done for reasons of customer service. The two restaurant operations were replaced by Robin's Donuts franchises, which operated quite successfully in Regina during the year, but did not get established in Saskatoon until very late in 2002.

Financial Status

As a result of the debt restructuring in 1997, and the use of grant funding to subsidize STC's operations with respect to passenger services, the company remains debt free.

Capital grants received from Crown Investments Corporation of Saskatchewan (CIC) in 2002 were \$2.4

million, compared to \$1.8 million in the previous year. About \$1.8 million of the capital grant received in 2002 was allocated to purchase fleet assets. It is anticipated that STC will require \$1.9 million in capital grants in the year 2003.

In 2002, STC received \$2.4 million in operating grants from CIC to fund part of its operating losses with respect to passenger operations. The remaining funds needed to operate STC's passenger services are generated internally from the express service operations. STC anticipates that it will require \$1.6 million in the year 2003, in operating grants.

The Finance department has 17 full-time in-scope employees and one part-time in-scope employee.

Although STC's financial performance is improving, STC is still incurring yearly net cash losses. As a result, STC did not pay a dividend to CIC in 2002, and does not expect to pay one in 2003.



Janine Mildenberger
Express Services Attendant 1, Saskatoon
Eight months of service

Public Policy and Financial Integration

The Saskatchewan Transportation Company is a Crown corporation of the Province of Saskatchewan, under the auspices of the Crown Investments Corporation of Saskatchewan, the province's holding company.

The CIC Board of Directors, who are all members of the Executive Council of Government, represent the interests of the stakeholders, the people of Saskatchewan. In consultation with the Crowns, it has developed a long-term strategic plan and a method of evaluation.

STC is in full support of both the strategic objectives and of the evaluation methodology used by CIC. The company feels this is the best method available to not only ensure that it is meeting its social obligations to the people of Saskatchewan, but is also as transparent as it can be in terms of where it is and where it is going as a corporation.

The strategic plan sets out five objectives for a Crown corporation that are to be part of its business and strategic planning. The five objectives are:

1. Customer:

- To exceed customer expectations for products and services.

2. Financial Health:

- To help position the entire Crown sector to prosper
- To provide a return to the people of Saskatchewan that justifies the shareholder risk and investment in the overall sector.

3. Mandate and Role:

- To incorporate the Crown sector's mission into each corporation's mandate and role.
- To strive to balance accountability with each corporation's need to operate in a commercially competitive environment.

4. Public Purpose:

- To strive to ensure access to reasonably and competitively priced sector products and services on an equitable basis that might not otherwise be available to all or some of Saskatchewan's residents.
- To contribute to social, economic and environmental public policies of the Government of Saskatchewan, including: economic

diversification and growth; representative workforces; skills training and development; technical innovation and development and environmental responsibility and stewardship.

5. Human Resources:

- To align human resources processes and practices to best deal with emerging sector wide issues and to support achievement of individual Crown corporation strategies.

Financial Integrity...The First Consideration

A Saskatchewan Crown corporation is, by definition, a business entity. It provides a service, for which it charges a fee. This is as true with STC as it is with any of the other CIC Crowns.

As a business, a primary concern of STC has to be its financial integrity. The corporation must ensure that the shareholders -- the people of Saskatchewan -- are getting the best possible value for the money invested.

In most business operations, this is measured by return on investment. In the case of Saskatchewan's Crown corporations, this is found in the dividend paid to the holding company, CIC, by the various Crowns.

STC is an obvious exception to this. As the company does not make a profit, but rather, receives a subsidy, it cannot pay dividends. Because the corporation is seen as a valued contributor to Saskatchewan society, its continued success is not judged solely on financial performance.

The indicators of STC's financial integrity are, therefore, different from most other Crowns. It is evaluated on the amount of subsidy it receives (Is this kept as low as possible?) and by the value it gets for the money injected into its operation (Are taxpayers getting their money's worth for the subsidy they pay? Is STC spending the money prudently?).

Public Policy...The Second Consideration

As the Government of Saskatchewan defines a Crown corporation, it must be more than just a successful business endeavor; it must also serve a purpose in enhancing the quality of life in the province in a number of areas.

These areas are many and varied, including, but not limited to: providing a public service which would not otherwise be available; providing a necessary service at the lowest possible cost to the consumer; providing employment and employment training opportunities; providing employment equity opportunities; promoting the growth of local businesses and the economy; promoting safe and harmonious workplaces; promoting technological awareness in the workforce; and providing stewardship of the environment.

In essence, then, the corporation must not allow bottom line considerations to outweigh these other important aspects.

Each corporation, depending on such factors as its line of business and its competitive outlook, will take a different approach to attaining public policy goals.

STC, because of its financial constraints, is more challenged than other Crowns in terms of meeting its public policy purpose, but must comply with the overall direction nonetheless.

Integration

Integration of these two important aspects of a Crown's business are found in the **Performance Management Document**, a contract drawn up each year by the Crown, in consultation with CIC.

This Performance Management Document forms the foundation on which a Crown corporation builds its annual strategic plan and annual business plan. In essence, the corporation designs its operations towards the fulfillment of the Performance Management Document.

The heart and soul of the Performance Management Document is the **Balanced Scorecard**, a reporting technique used to evaluate the Crown's planning process and its success in moving toward the goals it has set out.

This Balanced Scorecard, divided into quadrants, sets out a general purpose, plus specific targets in moving a corporation to that purpose, and the specific measuring devices to judge the corporation's success in its actions.

STC's Balanced Scorecard for 2002, including year-end results, is set out below:

Made IN Saskatchewan. FOR Saskatchewan

“Saskatchewan people built a bus service because we are a province of vast area and limited population.”

*Jim Hadfield
President and CEO*

PUBLIC POLICY GOALS

TO ACHIEVE OUR VISION, HOW CAN WE SATISFY PUBLIC POLICY GOALS?

Objective	Measure	Target	Final
Provide optimum level of service to meet customer demand	Miles traveled	3.2 M	3.2 M
	Number of communities served	273	275
Protect our environment	Greater fuel efficiency	1.5% increase	1.67% decrease
Develop fair compensation package for our employees	Gender-neutral classification plan, incorporating government and industry standards	Job evaluation and market study completed	Market increase for Journey-person mechanic JJEC developed recommended wage grid
Enhance quality of customer service	Number of staff trained under "Saskatchewan Best" program	50 staff trained per year	Three staff trained to become in-house trainers
Build representative workplace	Implementation of annual joint union-management employment equity plan	<ol style="list-style-type: none"> 1. Review Statistics Canada population analysis and make appropriate recruitment plans 2. Deliver workforce educational programs 3. Explore new partnership opportunities with designated groups 	<ol style="list-style-type: none"> 1. Self-identify Workforce Survey complete - approx. 85% response rate 2. Notice of vacancies sent via email to designated groups 3. New permanent hires: one of three equity candidates; Seasonal hires: 14 of 29 equity candidates.

CUSTOMER

TO ACHIEVE OUR VISION, HOW SHOULD WE APPEAR TO OUR CUSTOMERS?

Objective	Measure	Target	Final
Enhance fare affordability	1. Customer satisfaction with fares	1. 75%	88% average or better
	2. Customer satisfaction with discount programs	2. 75%	90% average or better
Match seats in fleet more closely to customer demand	Load factor	24.2%	24%
Ensure that rural Saskatchewan customers have access to full STC services	Increase knowledge base of rural agents through regional meetings	40 agents met with	51 agents attended six sessions in October
Maintain safety	Preventable-accident free miles driven	82%	92%
Customer satisfaction	Ridership surveys	80% good or excellent	83% good or excellent

FINANCIAL

TO SUCCEED FINANCIALLY, HOW SHOULD WE APPEAR TO OUR SHAREHOLDERS?

Objective	Measure	Target	Final
Utilize operating grant to fulfill public policy objective	Yearly operations subsidy	\$2.4 M	\$2.4 M
Utilize capital grant to fulfill public policy objective	Yearly capital subsidy	\$2.4 M	\$2.4 M
Ensure Corporation's asset base	1. Average age of fleet (30 or more seats)	1. 8.5 years	1. 8.52 years
	2. Average age of fleet	2. 6.6 years	2. 7.13 years
Ensure shareholder's subsidy is properly directed	Subsidy per mile traveled	\$0.77	\$0.84

INNOVATION AND GROWTH

TO ACHIEVE OUR VISION, HOW WILL WE SUSTAIN OUR ABILITY TO CHANGE AND IMPROVE?

Objective	Measure	Target	Final
Enhance provision of technologically-based services	Implementation of new technology measures	Network of Gateway electronic ticketing for passengers implemented	Fully implemented
Explore new business opportunities	Actual-to-actual increase of other revenues	2% per year over 2001	5.8% decrease from 2001
Measure and improve employee satisfaction	In-house surveys	Implement recommendations from 2001 surveys	1. Journey-person Mechanic market increase negotiated 2. SaskBest Train the Trainer competed
Increase charter business	Charter revenues (actuals)	35% increase over 2001	61% increase

Significant Variances

1. Subsidy per mile traveled is high due to low passenger revenues, due in part to a weakened rural economy and in part to warmer than average temperatures.
2. Training for customer service enhancement to begin in first and second quarters of 2003, using in-house trainers trained this year.
3. Other revenues continue to be down due to reduced demand for foreign coach servicing.
4. Fuel efficiency numbers down due to delay in receiving new smaller coaches, resulting in older, larger coaches being used in their place for the time being.

The Balanced Scorecard is an evolving document. For 2003, STC, in consultation with CIC, has refined the format for its scorecard to present it in a fashion which better reflects the overall aims of the corporation and its day-to-day activities, while keeping the needs of the shareholder paramount. The Balanced Scorecard for 2003 is:

WE MEET THE NEEDS OF OUR CUSTOMERS

Objective	Measure	2003
Our customers are satisfied with the service they receive	Survey results	82% good or excellent rating
We ensure our customers enjoy safe service	Accident-free miles	85%
Our fares and discounts are competitive and satisfactory to our customers	Passenger survey results re: fares and discounts	75% average or better
Our staff and partners are trained to provide good quality customer service	"Saskatchewan Best" or other customer service training - number of staff trained:	50
	Agency meetings - number of agents met with:	40
Our routes serve a significant portion of rural Saskatchewan	Miles traveled Communities served	3.1 M 275
All of our customers deserve the most comfortable ride possible	Coaches equipped for wheelchair accessibility - percentage of fleet:	17%

WE ARE A GOOD CORPORATE CITIZEN

Objective	Measure	2003
We support development of the Saskatchewan economy, particularly rural economy	Number of Rural agents	205
	Buy Saskatchewan - percentage of expenditures:	Develop technology for tracking payments to suppliers
We support creating job and career opportunities for young people	Help develop career training opportunities in the bus passenger industry - number of opportunities pursued:	Examine opportunities with Aboriginal & educational institutes
	Hire summer students - number of students hired:	3
We work to protect our environment	Improvements in fuel efficiency - percentage improvement:	1.5%
	Newer, more fuel efficient coaches - average age in years:	6.0 - 6.5
We support development of the tourism industry in the province	Agreements/partnerships with provincial attractions - number of agreements:	Initial contacts and research
We support development of e-commerce in the province	Web page - number of hits:	15,000
	Point of Sales/Billing technology	Implement new invoicing system, including electronic presentment through website

WE ARE A FISCALLY RESPONSIBLE COMPANY

Objective	Measure	2003
We live within the grants given us by our stakeholders	Operating grant	\$1.6M
	Capital grant	\$1.9M
We keep our operating costs as low as possible	Subsidy per mile	\$0.83
We look for non-traditional forms of revenue	Charter revenues - percentage increase:	5%
	Other revenues - percentage increase:	3%
We ensure our equipment is correct for our needs	Load factor	24%

WE ARE A HIGH-QUALITY EMPLOYER

Objective	Measure	2003
We support development of a representative workforce in the province	Percentage of new hires from designated groups	40%
	Percentage: (ongoing until a representative workforce is achieved)	
We support fair and equitable compensation for employees	Pay equity (job evaluation)	Negotiate implementation of new pay scales
We work to promote a safe and satisfactory workplace	Employee satisfaction surveys	Conduct employee survey
	Workplace safety records - decrease in lost time accidents:	5%
We believe in career enhancing training for our employees	Safety training - number of staff trained	25
	"Saskatchewan Best" or other customer service training - number of staff trained:	50

WE ARE ACCOUNTABLE AND TRANSPARENT

Objective	Measure	2003
We meet or exceed all financial reporting requirements	CIC disclosure requirements for Annual Report Reported comments from External and Provincial Auditors regarding our financial statements	Meet or exceed Positive comments only
We meet all requirements placed on the company through laws, the legislature or our holding company	Citations from those in a position of oversight (i.e.: Provincial Auditor)	No more than 1 per year
We take seriously what our customers say	Response time on customer complaints/ inquiries and Ministerial referrals	5 days
We take seriously what the community says	Interest group meetings - number per year:	4



Made IN Saskatchewan. FOR Saskatchewan

“STC is a Saskatchewan-based company, founded to meet Saskatchewan’s particular needs, using solutions that are particular to Saskatchewan.”

*Jim Hadfield
President and CEO*

Don Lysitza
Motor Coach Operator,
Saskatoon,
21 years of service

Corporate Management

Saskatchewan Transportation Company

Head Office:

2041 Hamilton Street,
Regina, Saskatchewan
S4P 2E2
Phone: (306) 787-3347

Senior Management

President and CEO	Jim Hadfield
Senior Director Finance and Administration	Shawn Grice
Senior Director Customer Services and Operations	Bob Strang
Director Human Resources and Labour Relations	Ingrid Reid
Director Communications and Strategic Planning	John Millar
Manager Business Development	Dean Madsen
Manager Customer Services (North)	Ray Pilling
Manager Maintenance	Carl Clark
Manager Information Systems	Brad Dewald

If you would like additional copies of this report, please contact Janet Abells at (306) 787-3412 e-mail jabells@stcbus.com

This document can be viewed at the STC website: www.stcbus.com

Passages

In the year 2002, the STC family got smaller. Some of these passages were a time of celebration, and some were a time of mourning. But all took a little piece of the company with them.

Retirees:

Dave Fleming, Operations Assistant, Saskatoon, retired September 20th with 35 years of service.

Murray Brown, Express Services Attendant 1, Regina, retired July 22nd with 26 years of service.

Murray Berthold, Motor Coach Operator, Saskatoon, retired July 27th with 28 years of service.

Wilf Gatrell, Motor Coach Operator, Regina, retired May 25th with 25 years of service.

Garnet Johnstone, Motor Coach Operator, Prince Albert, retired July 31st with 35 years of service.

Cecil Wiest, Motor Coach Operator, Regina, retired December 31st with 23 years of service.

Marvin Friesen, Mechanic 2, Saskatoon, retired October 31st with 26 years of service.

Jack Creighton, Motor Coach Operator, Regina, retired August 10th with 35 years of service.

In Memoriam:

Laurie McRuvie, Administrative Assistant, Maintenance, in Saskatoon, with 22 years of service, passed away September 22nd.

2002

FINANCIAL STATEMENTS



Management's Responsibility for Financial Reporting

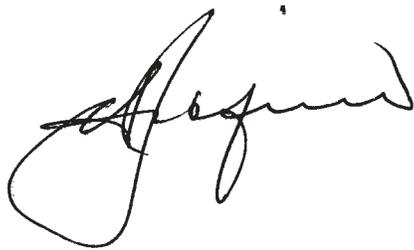
Management has prepared the financial statements of the Company in accordance with generally accepted accounting principles. The financial data included elsewhere in this report is consistent with the financial statements and the underlying information from which the Company prepared these financial statements.

Management has the primary responsibility for the integrity and objectivity of the financial statements. To fulfil this responsibility, the Company maintains appropriate systems of internal controls, policies and procedures. These systems provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Company.

Meyers Norris Penny LLP, the Company's external auditors, have examined the December 31, 2002 financial statements, and their report follows.

The Board of Directors of Saskatchewan Transportation Company has examined and approved the statements.

On behalf of the Company,



Jim Hadfield
President & CEO



Shawn Grice
Senior Director
Finance & Administration



MEYERS NORRIS PENNY LLP

Auditors' Report

To the Members of the Legislative Assembly Province of Saskatchewan

We have audited the statement of financial position of **Saskatchewan Transportation Company** as at December 31, 2002 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Saskatchewan Transportation Company as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Meyers Norris Penny LLP

Chartered Accountants

Regina, Canada
February 6, 2003

Statement of Financial Position

As at December 31

	2002	2001
	(Thousands of Dollars)	
ASSETS		
Current		
Cash	\$ 2,286	\$ 1,226
Accounts receivable	1,478	1,631
Inventories	314	314
Prepaid expenses	158	148
	<hr/> 4,236	<hr/> 3,319
Capital assets <i>[note 5]</i>	15,086	15,224
	<hr/> \$19,322	<hr/> \$18,543

LIABILITIES AND PROVINCE'S EQUITY

Current

Accounts payable and accrued liabilities	\$ 2,269	\$ 2,177
	<hr/> 2,269	<hr/> 2,177

Deferred capital grant <i>[note 6]</i>	6,571	4,954
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Province of Saskatchewan's Equity

Retained earnings	10,482	11,412
	<hr/> \$19,322	<hr/> \$18,543

Commitment *[note 11]*

See accompanying notes

On behalf of the Board


Director


Director

Statement of Operations and Retained Earnings

Year ended December 31

	2002	2001
	(Thousands of Dollars)	
REVENUE		
Express services	\$ 6,498	\$ 6,585
Passenger services	6,424	6,454
Other revenues	559	606
(Loss) gain on disposal of capital assets	(58)	6
	<u>13,423</u>	<u>13,651</u>
EXPENSES		
Operating	13,255	12,894
Administration	2,493	2,612
Amortization	1,714	1,534
	<u>17,462</u>	<u>17,040</u>
Loss before the following	(4,039)	(3,389)
Write-down of fleet assets [note 5]	(74)	(190)
Operating grant [note 7]	2,400	2,000
Capital grant [note 6]	783	495
	<u>(930)</u>	<u>(1,084)</u>
Net loss	(930)	(1,084)
Retained earnings, beginning of year	11,412	12,496
Retained earnings, end of year	\$10,482	\$11,412

See accompanying notes

Statements of Cash Flows

Year ended December 31

	2002	2001
	(Thousands of Dollars)	
OPERATING ACTIVITIES		
Net loss	\$ (930)	\$ (1,084)
Items not involving cash:		
Amortization	1,714	1,534
Loss (gain) on disposal of capital assets	58	(6)
Recognition of capital grant	(783)	(495)
Write-down of fleet assets	74	190
Net change in non-cash working capital <i>[note 9]</i>	235	189
Cash provided by operating activities	368	328
INVESTING ACTIVITIES		
Additions to capital assets	(1,841)	(1,990)
Proceeds on disposal of capital assets	133	68
Cash used in investing activities	(1,708)	(1,922)
FINANCING ACTIVITIES		
Capital grant received	2,400	1,800
Cash provided by financing activities	2,400	1,800
Increase in cash	1,060	206
Cash, beginning of year	1,226	1,020
Cash, end of year	\$ 2,286	\$ 1,226

See accompanying notes

Notes to Financial Statements

Year ended December 31, 2002

1. STATUS OF THE 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. The Company's powers, duties and conditions were affirmed in 1993 by Order in Council #5. The Company is continued under The Crown Corporations Act, 1993.

The accounts of the Company are consolidated in the annual financial statements of Crown Investments Corporation of Saskatchewan [CIC].

The Company is a Provincial Crown Corporation and therefore not subject to federal or provincial income tax.

2. OPERATIONS AND FINANCING

In 2000, STC received cabinet direction with regard to its mandate. Under that direction, STC will continue to provide bus passenger and express service to the communities of Saskatchewan. STC will ensure that its commitment to servicing the province is kept uppermost in all of its planning even though the Company has been given flexibility to adjust service delivery levels to keep the Company strong.

STC continues to be dependent upon CIC for its funding as a result of the non-commercial routes operated by the Company. By way of Orders in Council #941/2001 and #942/2001, the Company was authorized to obtain grant funding up to \$4,800 thousand in total for both capital and operating requirements. During the year, the Company requested and received \$4,800 thousand of the \$4,800 thousand authorized.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with generally accepted accounting principles. The significant policies are as follows:

Inventories

Inventories of vehicle parts and supplies are stated at the lower of average cost and replacement cost.

Capital Assets

Capital assets are stated at cost less accumulated amortization. Expenditures for betterments, such as major refurbishment and structural repairs, are capitalized. Normal maintenance, such as engine and drivetrain repairs or replacements, mechanical repairs and preventative maintenance, are expensed as incurred.

Operating Grant Revenue

Operating grants from CIC are recognized as revenue when received.

Capital Grant Revenue

Capital grants are deferred as received and are recognized as revenue over the life of the asset. The Company recognizes a portion of the capital grant as revenue each year equivalent to the amount of amortization recognized on the assets acquired with the grant funds.

Amortization

Amortization is provided from the date assets are put into service and is recorded on the straight-line basis at rates designed to amortize the cost of the capital assets over their estimated useful lives after considering salvage values.

Estimated useful lives are as follows:

Buildings	10 to 40 years
Vehicles	3 to 15 years
Other equipment	3 to 10 years

During the year the Company revised its estimate of the useful lives of certain information technology assets from five years to three years. The net effect of this change on these financial statements is not material.

4. FINANCIAL INSTRUMENTS

For certain of the Company's short-term financial instruments including:

Cash
Accounts receivable
Accounts payable

the carrying amounts approximate fair value due to their immediate or short-term maturity.

5. CAPITAL ASSETS

	2002		2001
	Cost	Accumulated Amortization	Net Book Value
	(Thousands of Dollars)		
Land	\$ 1,902	\$ -	\$ 1,902
Buildings	10,380	5,320	5,060
Vehicles	12,318	5,322	6,996
Other Equipment	4,889	3,761	1,128
	\$ 29,489	\$ 14,403	\$ 15,086
			\$ 15,224

Certain fleet assets have been written down to reflect the Net Recoverable Amount of those assets.

6. CAPITAL GRANT

Order in Council #941/2001 authorizes the Company to obtain grant funding up to \$2,400 thousand for capital requirements in 2002. During the year, the Company obtained \$2,400 thousand [2001 - \$1,800 thousand] from CIC.

Deferred Capital Grant consists of the following:

	2002	2001
	(Thousands of Dollars)	
Deferred capital grant, beginning of year	\$ 4,954	\$ 3,649
Capital grant received	2,400	1,800
Capital grant revenue recognized	(783)	(495)
	\$ 6,571	\$ 4,954

7. OPERATING GRANT

Order in Council #942/2001 authorizes the Company to obtain grant funding up to \$2,400 thousand for operating requirements in 2002. During the year, the Company obtained \$2,400 thousand [2001 - \$2,000 thousand] from CIC.

8. PENSION PLANS

The Company participates in two pension plans. One is a defined benefit plan established pursuant to the Public Service Superannuation Act and administered by the Public Employees Benefits Agency. The Company's contributions to this plan which were expensed during 2002 were \$78 thousand [2001 - \$95 thousand]. The other is the Capital Pension Plan which is a defined contribution plan administered by CIC. The Company's contributions to this plan which were expensed in 2002 were \$419 thousand [2001 - \$396 thousand]. All eligible employees hired after September 1, 1980 are participants in the defined contribution plan.

The Company's financial obligation to each plan is limited to making regular payments to match the amounts contributed by the employees for current service.

9. NET CHANGE IN NON-CASH WORKING CAPITAL

	2002	2001
	(Thousands of Dollars)	
Decrease (increase) in:		
Accounts receivable	\$ 153	\$ 126
Inventories	-	(19)
Prepaid expenses	(10)	(34)
Increase in:		
Accounts payable and accrued liabilities	92	116
	\$ 235	\$ 189

10. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown Corporations, departments, agencies and boards and commissions related to the Company by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions, and amounts outstanding at year end, are as follows:

	2002	2001
	(Thousands of Dollars)	
Accounts receivable	\$ 172	\$ 221
Accounts payable	171	189
Express revenues	498	528
Other transportation services revenues	429	315
Operating and administration expenses	1,427	1,358

In addition, the Company pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other transactions and amounts due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

11. PURCHASE COMMITMENT

During 2002 the Company committed to purchase three new coaches for approximately \$618 thousand. Due to manufacturing delays these coaches cannot be delivered until 2003. The Company will expend capital grant funds for these coaches at that time.



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accountable: **3, 5, 25**

charter: **11, 17, 22, 24**

cleanliness: **17**

committee: **3, 6, 7, 8**

compliance: **3, 5, 7, 10, 11, 14**

customer service: **3, 14, 18, 21, 22, 23**

deregulation: **3, 10, 13, 14, 15**

express service: **9, 10, 16, 17, 18, 31, 33**

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passenger service: **9, 12, 13, 15, 16, 17, 18, 31**

public policy: **19, 20, 21, 22**

safety: **6, 10, 12, 13, 14, 17, 21, 24**

subsidy: **12, 13, 14, 15, 19, 22, 24**

