

# **Saskatchewan Transportation Company**

**Second Quarter Report 2010**

# **2010 2nd 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 second quarter of 2010. From a management perspective, it highlights the primary factors that impacted our operations and the financial results of the Company over the past six months.

This MD&A compares the operational outcomes of the second quarter of 2010 to the corresponding quarter in the previous year (second quarter of 2009) 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 half of 2010, STC coaches traveled approximately 1,580,000 miles, serving 290 Saskatchewan communities, consistent with prior year levels of service.

Revenues from passenger operations in this quarter were \$1,706,000 up from \$1,525,000 in revenues reported in the second quarter of 2009. Year to date passenger revenues were \$3,528,000, compared to \$3,298,000 for the same period in 2009.

Expenses associated with operating passenger services in this quarter were \$2,868,000 up from the 2009 figure of \$2,769,000. Year to date passenger operating expenses were \$5,696,000, up from the 2009 total for the same period of \$5,502,000

Operating losses for passenger services in the quarter were \$1,162,000, compared to a loss of \$1,244,000 in the second quarter of 2009. Year to date losses were \$2,168,000, compared to a loss of \$2,204,000 for the same period in 2009.

Total ridership for the first half of 2010 was 125,341, compared to 123,351 in the same period of 2009, an increase of approximately 1.6%. This increase reflects the results of efforts to increase ridership including the May 2010 Senior's Seat Sale.

STC implemented a 4.5% passenger fare increase effective March 1, 2010.

### **Express Services:**

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

In the second quarter of 2010, revenues from express operations were \$2,039,000, up from the revenues of \$1,982,000 reported in the second quarter of 2009. Year to date

express revenues were \$3,683,000 as compared to \$3,505,000 for the same period in 2009.

Expenses associated with operating express services in the second quarter of 2010 were \$1,379,000, up from the 2009 third quarter figure of \$1,374,000. Year to date express operating expenses were \$2,678,000, as compared to \$2,716,000 for the same period in 2009.

Profits realized for express operations in the second quarter were \$660,000, compared to a profit of \$608,000 in the second quarter of 2009. Year to date profits were \$1,005,000 compared to \$789,000 for the same period of 2009.

STC implemented a 3% express rate increase effective February 1, 2010.

### **Maintenance Services:**

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

In the second quarter of 2010, expenses associated with maintaining the Company's fleet were \$740,000, a decrease compared to \$779,000 in the second quarter of 2009. Year to date maintenance expenses for the Company's fleet were \$1,537,000 as compared to \$1,617,000 for the same period of 2009.

The Company also uses these facilities to perform maintenance work for other transportation companies. The revenues derived from this service in the second quarter of 2010 were \$167,000 compared to \$166,000 in the second quarter of 2009. Year to date revenues were \$307,000 compared to \$304,000 for that same period in 2009. Expenses associated with such work were \$96,000 in the second quarter of 2010 compared to \$95,000 in the second quarter of 2009. Year to date expenses for third party maintenance work were \$179,000 compared to \$176,000 for the same period of 2009.

### **Financial Summary:**

Overall, STC's revenues for the second quarter of 2010 amounted to \$4,014,000, compared to \$3,782,000 in the second quarter of 2009. Year to date revenues were \$7,759,000 as compared to \$7,326,000 for the same period of 2009.

Expenses for the second quarter were \$6,678,000, compared to \$6,636,000 for 2009. Year to date expenses were \$13,137,000 as compared to \$13,140,000 for the same period of 2009.

The Company's loss before grants for the quarter was \$2,664,000, compared to \$2,854,000 in the second quarter of 2009. Year to date losses were \$5,378,000 as compared to \$5,814,000 for the same period of 2009.

STC has been approved for an operating grant of \$9.0 million from its holding company, the Crown Investments Corporation (CIC) of Saskatchewan. Current projections for the year, based on the second quarter, indicate that the Company will not require the full amount of grant funding.

In this year's first two quarters, STC drew down \$4,200,000 of the grant funds available from CIC. STC had no outstanding loans or indebtedness in the quarter.

At the end of this quarter, the Government's equity in STC was \$8,542,000 compared to \$8,873,000 in the second quarter of 2009.

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

In February 2008, the Canadian Institute of Chartered Accountants (CICA) Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian Generally Accepted Accounting Principles (GAAP) for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures for the prior year. The Public Sector Accounting Board (PSAB) in September 2009, approved an amendment to the introduction to the Public Sector Accounting Handbook mandating Government Business Enterprises (GBEs) to adopt IFRS and Other Government Organizations (OGOs) to adopt either IFRS or the public sector handbook, whichever is considered the most appropriate basis of accounting. CIC believes that IFRS is the most appropriate basis of accounting for all its subsidiaries. Therefore STC as an OGO is proceeding with adoption of IFRS.

STC's IFRS conversion project included a high level IFRS implementation plan to identify stakeholders, plot milestones, deadlines, scope, approach, risks and mitigations, governance and accountability, responsibilities, and resource requirements. An external advisor was engaged to assist and undertake a detailed review of major differences between current Canadian GAAP and IFRS.

The project team completed an assessment of those international financial reporting standards with the highest potential for impact. Results showed the most significant areas of difference were related to accounting for property, plant and equipment, sick leave entitlement and financial statement disclosures. Crown sector working groups continue to review standards in detail, discuss specific issues as a basis for ensuring common understanding and, where possible, consistency in approaches to issue resolution among the Crown corporations. The selection of specific accounting is being finalized. STC assessed its processes, systems and internal controls and determined all to be adequate for IFRS implementation. Mock IFRS financial statements were created and submitted to CIC for review in early 2010. Opening balances and Quarter 1 financial information under IFRS are currently being compiled and reviewed. STC's external auditors have been involved throughout the conversion process.

## Saskatchewan Transportation Company

### Statement of Financial Position

(unaudited - thousands of dollars)

	As at June 30, 2010	As at December 31, 2009
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 260	\$ 1,474
Accounts receivable	1,387	1,402
Inventories	358	393
Prepaid expenses	482	508
	<u>2,487</u>	<u>3,777</u>
Property, plant and equipment	39,849	40,193
	<u>\$ 42,336</u>	<u>\$ 43,970</u>
<b>Liabilities and Province's Equity</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 2,069	\$ 2,575
Demand operating loan	-	150
	<u>2,069</u>	<u>2,725</u>
Deferred capital grant	31,260	32,142
<b>Province of Saskatchewan's Equity</b>		
Contributed Surplus	465	465
Retained earnings	8,542	8,638
	<u>\$ 42,336</u>	<u>\$ 43,970</u>

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

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
<b>Revenue</b>				
Express services	\$ 2,039	\$ 1,982	\$ 3,683	\$ 3,505
Passenger services	1,706	1,525	3,528	3,298
Other	269	263	549	500
Gain (loss) on disposal of property, plant and equipment	-	12	(1)	23
	4,014	3,782	7,759	7,326
<b>Expenses</b>				
Operating	5,082	5,017	10,089	10,011
Administration	899	967	1,654	1,821
Amortization	697	652	1,394	1,308
	6,678	6,636	13,137	13,140
Loss before the following	(2,664)	(2,854)	(5,378)	(5,814)
Operating grant	1,300	2,000	4,200	4,250
Capital grant	542	507	1,082	1,012
<b>Net loss</b>	(822)	(347)	(96)	(552)
Retained earnings, beginning of period	9,364	9,220	8,638	9,425
<b>Retained earnings, end of period</b>	\$ 8,542	\$ 8,873	\$ 8,542	\$ 8,873

## Saskatchewan Transportation Company

### Statement of Cash Flows

(unaudited - thousands of dollars)

	Three months ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
<b>Operating Activities</b>				
Net loss	\$ (822)	\$ (347)	\$ (96)	(552)
Items not involving cash:				
Amortization	697	652	1,394	1,308
Loss (gain) on disposal of property, plant and equipment	-	(12)	1	(23)
Recognition of capital grant	(542)	(507)	(1,082)	(1,012)
Net change in non-cash working capital	93	259	(430)	(485)
<b>Cash provided by (used in) operating activities</b>	<b>(574)</b>	<b>45</b>	<b>(213)</b>	<b>(764)</b>
<b>Investing Activities</b>				
Additions to property, plant and equipment	(336)	(366)	(1,052)	(807)
Proceeds on disposal of property, plant and equipment	-	14	1	45
<b>Cash used in investing activities</b>	<b>(336)</b>	<b>(352)</b>	<b>(1,051)</b>	<b>(762)</b>
<b>Financing Activities</b>				
Capital grant received	200	-	200	-
Repayment of operating demand loan	-	-	(150)	-
<b>Cash provided by financing activities</b>	<b>200</b>	<b>-</b>	<b>50</b>	<b>-</b>
<b>Decrease in cash</b>	<b>(710)</b>	<b>(307)</b>	<b>(1,214)</b>	<b>(1,526)</b>
Cash, beginning of period	970	1,457	1,474	2,676
<b>Cash, end of period</b>	<b>\$ 260</b>	<b>\$ 1,150</b>	<b>260</b>	<b>1,150</b>

# **Saskatchewan Transportation Company**

## **Notes to Financial Statements**

(unaudited)

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### **1. Basis of Presentation and Significant Accounting Policies**

The interim financial statements of the Saskatchewan Transportation Company (the Company) have been prepared by management in accordance with Canadian generally accepted accounting principles. Certain information and disclosures normally required to be included in the notes to annual financial statements have been condensed or omitted. The interim financial statements should be read in conjunction with the financial statements and notes thereto in the Company's annual report for the year ended December 31, 2009.

These financial statements have been prepared following the same accounting principles as the financial statements for the fiscal year ended December 31, 2009.

### **2. Seasonal Nature of Express Revenues**

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