

# **Saskatchewan Transportation Company**

**Third Quarter Report 2006**

# 2006 3<sup>rd</sup> Quarter Corporate Reporting

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## *Management Discussion and Analysis*

In this MD&A, STC Management will discuss the results of its Third Quarter operations in 2006, in context of both the corresponding quarter in the previous year and, in general terms, in relation to the anticipated financial position of the company over the full year.

The MD&A will also review any emerging corporate issues which arose in the quarter and will have a significant impact on the corporation's fiscal position.

### **Passenger Service:**

In the third quarter of 2006, STC coaches traveled 2,367,419 miles, serving 275 Saskatchewan communities.

Revenues for passenger operations in the quarter were \$1,720,000, down from the \$1,754,000 in revenues realized by the company in the third quarter of 2005. The revenues for the year to date were \$5,285,000, up from \$5,066,000 in the first nine months of 2005.

Expenses associated with operating passenger services were \$2,197,000, up slightly from the 2005 figure of \$2,058,000. Year-to-date passenger operating expenses were \$6,452,000, compared to \$6,091,000 in the first nine months of 2005.

Operating losses of passenger services in the quarter were \$477,000, an increase from the \$304,000 in operating loss experienced by passenger services in the third quarter of 2005. The loss for the first nine months of the year totals \$1,167,000, compared to \$1,025,000 for the same time period in 2005.

Actual revenues from passenger service are \$354,000 ahead of projected revenues for the first nine months of 2006.

### **Express Service:**

Through its network of 195 agents in the province and interconnecting arrangements with other carriers, STC hauls freight throughout the province and connects to destinations across North America.

In the third quarter of 2006, revenues from express operations were \$1,836,000, up slightly from the revenues of \$1,709,000 realized in the third quarter of 2005. Revenues for the first nine months' express operations were \$4,947,000, up from the \$4,758,000 in revenues for the same period in the previous year.

Express operating expenses during the quarter amounted to \$1,165,000, up from the \$1,048,000 in expenses for the same period the previous year. Expenses for the first nine months amounted to \$3,349,000, compared to \$3,133,000 in the first three quarters of 2005.

Overall, profits for freight operations in the third quarter amounted to \$671,000, compared to a profit of \$661,000 for the third quarter of 2005. Year-to-date profit is \$1,598,000, compared to \$1,625,000 for the first nine months of 2005.

Revenues for freight operations are slightly above expectations for the quarter. The farming economy has a major impact on this aspect of STC's business, which is very heavily driven by the rural economy. Depending on agricultural conditions for the remainder of the year, express revenues are projected to be slightly above budget.

### **Maintenance Services:**

STC operates a garage in Saskatoon for major bus servicing, and one in Regina for minor bus servicing. In addition, the company uses its facilities to do maintenance work for other bus companies, as well as to store vehicles for other companies.

The expenses for maintenance services in the third quarter of 2006 amounted to \$701,000, as compared to \$737,000 for the same three-month period in 2005. For the first three quarters, expenses amounted to \$2,198,000, compared to \$2,232,000 for the first nine months of 2005.

### **Financial Services:**

Overall, STC's revenues for the third quarter of 2006 amounted to \$3,856,000, compared to \$3,754,000 for the third quarter of 2005. Cumulatively for the first three quarters, revenues amounted to \$11,111,000, compared to \$10,599,000 in 2005.

Expenses were \$5,217,000, compared to \$4,922,000 the previous year. Expenses for the first three quarters of 2006 totaled \$15,348,000, up from \$14,815,000 for the same period in 2005.

The company's loss, before grants, for the quarter was \$1,361,000, compared to \$1,168,000 for the third quarter of 2005. Losses in the nine months amounted to \$4,237,000, compared to \$4,216,000 for the same period the previous year.

STC has been approved for an operating grant of \$5.0 million from its holding company, the Crown Investments Corporation of Saskatchewan. Current projections for the year, based on the third quarter, indicate that the company will not likely require the full amount of the grant funding this year. The projected operating loss for the year is approximately \$4.4 million, compared to \$4.0 million in 2005.

In the third quarter, STC drew down \$3.3 million of the grant funds available from CIC. STC had no outstanding loans or indebtedness in the quarter.

At the end of the quarter, the Government's equity in STC stood at \$9,873,000, compared to \$8,508,000 at the same time last year.

### **Other Issues:**

STC continues to see growth in its passenger numbers. Although the number of passengers using the service in the third quarter was actually down 1129 from the third quarter of 2005, for the first nine months of 2006, the number of passengers on STC buses was up 5224 over the same time period in 2005, an increase of 2.6 per cent.

If the current trends continue for the remainder of the year, led by the growing strength in passenger services, STC anticipates it will cut its loss for the year by \$1.1 million from what was budgeted.

For the second year, STC introduced a youth summer excursion pass during the second quarter of 2006. The passes were sold and used primarily in the third quarter. About 450 passes were sold in 2006, compared to just over 700 in 2005.

A contract was awarded for construction of a new Regina passenger and freight depot and head office. Due to industry factors driving increased construction costs throughout the province, STC had to increase its estimated cost of the entire project, including land assembly, construction and equipment, to \$25.5 million from the previous \$19 million.

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

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	As at Sept. 30, 2006	As at December 31, 2005
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 786	\$ 1,157
Accounts receivable	1,292	1,686
Inventories	371	353
Prepaid expenses	418	104
	<hr/> 2,867	<hr/> 3,300
Property, plant and equipment	18,764	17,888
	<hr/> \$ 21,631	<hr/> \$ 21,188

**Liabilities and Province's Equity**

<b>Current</b>		
Accounts payable and accrued liabilities	\$ 1,663	\$ 2,383
Deferred capital grant	10,095	8,993
<b>Province of Saskatchewan's Equity</b>		
Retained earnings	9,873	9,812
	<hr/> \$ 21,631	<hr/> \$ 21,188

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

	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
<b>Revenue</b>				
Express services	\$ 1,836	\$ 1,709	\$ 4,947	\$ 4,758
Passenger services	1,720	1,754	5,285	5,066
Other	292	291	871	795
Gain (loss) on disposal of property, plant and equipment	8	-	8	(20)
	<u>3,856</u>	<u>3,754</u>	<u>11,111</u>	<u>10,599</u>
<b>Expenses</b>				
Operating	4,063	3,843	11,998	11,457
Administration	699	602	2,007	1,862
Amortization	455	477	1,343	1,496
	<u>5,217</u>	<u>4,922</u>	<u>15,348</u>	<u>14,815</u>
Loss before the following	(1,361)	(1,168)	(4,237)	(4,216)
Operating Grant	800	1,200	3,300	3,400
Capital Grant	336	308	998	976
<b>Net income (loss)</b>	<u>(225)</u>	<u>340</u>	<u>61</u>	<u>160</u>
Retained earnings, beginning of period	10,098	8,168	9,812	8,348
<b>Retained earnings, end of period</b>	<u>\$ 9,873</u>	<u>\$ 8,508</u>	<u>\$ 9,873</u>	<u>\$ 8,508</u>

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

	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
<b>Operating Activities</b>				
Net income (loss)	\$ (225)	\$ 340	\$ 61	\$ 160
Items not involving cash:				
Amortization	455	477	1,343	1,496
Loss (gain) on disposal of property, plant and equipment	(8)	-	(8)	20
Recognition of capital grant	(336)	(308)	(999)	(976)
Net change in non-cash working capital	(64)	(326)	(658)	(783)
<b>Cash provided by (used in) operating activities</b>	<b>(178)</b>	<b>183</b>	<b>(261)</b>	<b>(83)</b>
<b>Investing Activities</b>				
Additions to property, plant and equipment	(1,234)	(1,129)	(2,293)	(1,743)
Proceeds on disposal of property, plant and equipment	17	-	83	56
<b>Cash used in investing activities</b>	<b>(1,217)</b>	<b>(1,129)</b>	<b>(2,210)</b>	<b>(1,687)</b>
<b>Financing Activities</b>				
Capital grant received	1,600	700	2,100	1,300
<b>Cash used in financing activities</b>	<b>1,600</b>	<b>700</b>	<b>2,100</b>	<b>1,300</b>
<b>Increase (Decrease) in cash</b>	<b>205</b>	<b>(246)</b>	<b>(371)</b>	<b>(470)</b>
Cash, beginning of period	581	931	1,157	1,155
<b>Cash, end of period</b>	<b>\$ 786</b>	<b>\$ 685</b>	<b>\$ 786</b>	<b>\$ 685</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, 2005.

These financial statements have been prepared following the same accounting principles as the financial statements for the fiscal year ended December 31, 2005.

**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.