Saskatchewan Transportation Company
Third Quarter Report 2016-17

For the period ending December 31, 2016

Corporate Mandate

The Saskatchewan Transportation Company is a provincial coach company which provides **safe**, **affordable**, and **accessible** bus passenger and freight services to Saskatchewan.

2016-17 Corporate Profile

Mission

To provide value to Saskatchewan residents with convenient, affordable, safe, clean, comfortable, courteous, environmentally friendly, and reliable passenger and freight transportation services.

Vision

To be the best passenger and freight transportation company in Canada.

Values

All business activities are conducted in a manner that is:

- Honest
- Dependable
- Innovative
- Respectful
- Socially and Environmentally Responsible

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Management Discussion and Analysis

Introduction

The following Management Discussion and Analysis (MD&A) provides insight into the Saskatchewan Transportation Company's (STC or the Company) operations for the nine months ended December 31, 2016. The MD&A is as of February 28, 2017 and should be read in conjunction with STC's December 31, 2016 condensed financial statements. The December 31, 2016 condensed financial statements are unaudited and have been prepared in accordance with International Accounting Standards (IAS) 34 – *Interim Financial Reporting*.

The discussion contains certain forward-looking statements that reflect Management's best estimates and assumptions on information available at the time. As these statements are impacted by certain risks and uncertainties described in the Risk Assessment section of STC's 2015-16 Annual Report, actual results and events may vary from those included in, contemplated by or implied by such statements.

Results of Operations

STC provides intercity bus service to a geographically-dispersed Saskatchewan market, and the footprint of its network is a key driver of costs. Diversifying revenue beyond passenger services, particularly through parcel express services, helps STC offset the passenger service losses. Other revenue streams, such as foreign coach and leasing company facilities, further contribute to STC's profitability.

To fulfill its public policy role, STC requires an operating and capital grant from its owner, Crown Investments Corporation (CIC). Ensuring the efficient use of these funds drives decisions throughout STC. As a result, the Company's financial performance is measured based on its operational efficiency. STC's operating cash loss as a percentage of expenditures was 42 per cent for the nine months ended December 31, 2016. In this regard, STC compares favourably to public transit in the urban centres which sit between 64 and 72 per cent on an annual basis, meaning STC's self-generated revenues cover a larger percentage of its operating expenses.

STC's revenues for the third quarter of 2016-17 were $3,821 thousand, down $51 thousand from $3,872 thousand in 2015-16 because of declines in both passenger and express revenues. Expenses for the quarter were $7,159 thousand, an increase of $83 thousand, as lower depreciation expense was offset by increased operating costs. As a result, the Company's loss before grants (including depreciation) was $3,338 thousand for the third quarter of 2016-17, a $134 thousand increase when compared to the $3,204 thousand loss reported for 2015-16.

On a year-to-date basis, declines in passenger and express services resulted in $914 thousand lower revenues, from $11,762 thousand in 2015-16 to $10,848 thousand in 2016-17. Total expenses for the nine months ended December 31, 2016 of $20,681 thousand were $33 thousand lower than the corresponding 2015-16 period primarily due to lower depreciation. For the period, the Company's loss before grants (including depreciation) grew to $9,833 thousand from a $8,952 thousand loss in the corresponding 2015-16 period.

For the fiscal year ending March 31, 2017, an operating grant of $12,400 thousand and a capital grant of $1,800 thousand from CIC were approved. At December 31, 2016, STC had received $8,500 thousand of the operating grant funds and $600 thousand of the capital grant funds available.

Passenger Services

STC provides intercity bus passenger service to 253 Saskatchewan communities. During the third quarter of 2016-17, STC coaches travelled approximately 710 thousand miles (2015-16 - 718 thousand miles). On a year-to-date basis, a total of 2,138 thousand miles were travelled during the first nine months (2015-16 - 2,134 thousand miles).

	Three months ended December 31		Nine months ended December 31	
	2016	2015	2016	2015
	(in thousands)			
Passenger service revenue	$ 1,586	$ 1,744	$ 4,469	$ 5,118
Passenger service operating expense	4,049	3,793	11,321	11,017
Passenger service loss	$ (2,463)	$ (2,049)	$ (6,852)	$ (5,899)

Total ridership for the third quarter of 2016-17 was 54,066 compared to 51,357 for 2015-16, an increase of approximately 5.3 per cent. The increase in ridership reported during the quarter was attributable to STC's advertising and promotional activities, highlighted by the October Senior Seat Sale and the November Ride Rewards promotion. The increase in ridership realized during the third quarter helped soften the declines reported for the first quarter of 2016-17. As a result, total ridership of 142,329 for the nine months ended December 31, 2016 was only 2.7 per cent lower than the total ridership of 146,318 for the nine months ended December 31, 2015.

Revenues from passenger services for the third quarter of 2016-17 were $1,586 thousand, down $158 thousand from the $1,744 thousand reported in 2015-16. Promotions were targeted at increasing the ridership base, resulting in reduced average fares in the quarter, with the intent to strengthen STC's long-term revenue generation ability by way of returning riders. Expenses associated with operating passenger services were $4,049 thousand, up $256 thousand when compared to the $3,793 thousand reported for 2015-16.

On a year-to-date basis, total passenger revenues declined $649 thousand to $4,469 thousand for the nine months ended December 31, 2016 as a result of lower ridership. The lower ridership and subsequent revenues were impacted by the sustained low cost of consumer fuel that increased the perceived cost of bus fares. This rationale was further supported by the growth in ridership that occurred during the second and third quarters of 2016-17 when STC implemented promotions that provided discounted fares. Route reductions implemented by Greyhound Canada and STC over the last few years also continued to impact ridership. For the nine-month period, total expenses increased $304 thousand to $11,321 thousand when compared to $11,017 thousand reported for the corresponding 2015-16 period.

Express Services

Through its network of 174 agents and interconnecting arrangements with other carriers, STC hauls freight throughout the province and connects to destinations across North America.

	Three months ended December 31		Nine months ended December 31	
	2016	2015	2016	2015
	(in thousands)			
Parcel express revenue	$ 1,851	$ 1,901	$ 5,410	$ 5,735
Parcel express operating expense	1,456	1,468	4,240	4,287
Parcel express profit	$ 395	$ 433	$ 1,170	$ 1,448

For the third quarter of 2016-17, revenues from express services were $1,851 thousand, down $50 thousand from the $1,901 thousand reported for the prior year's quarter, given lower volumes. Expenses associated with operating express services during the quarter were $1,456 thousand, a decrease of $12 thousand from 2015-16.

Express revenues for the nine months ended December 31, 2016 were $5,410 thousand compared to $5,735 thousand for the corresponding 2015-16 period, a decline of $325 thousand. The lower express revenues were a reflection of lower volumes. Total express operating expenses of $4,240 thousand for the nine-month period were down $47 thousand from the $4,287 thousand reported for the comparable 2015-16 period.

Maintenance Services

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

For the third quarter of 2016-17, maintenance service expenditures associated with supporting the Company's fleet (included in passenger and express services above) were $319 thousand, compared to $253 thousand for 2015-16. These expenses were $746 thousand for the nine months ended December 31, 2016, $81 thousand above the same period in 2015-16. The higher costs realized were primarily due to the timing of unpredictable, non-routine maintenance with a significant amount of work performed during the third quarter of 2016-17.

The Company also uses its facilities to provide maintenance and cleaning services for other transportation companies. The revenues derived from this service during the third quarter were $46 thousand compared to $56 thousand in the prior year's quarter, a decrease of $10 thousand. On a year-to-date basis, total revenues for the nine-month period of $152 thousand were down $31 thousand from the same period in 2015-16. The decrease in revenue experienced during both the third quarter and year-to-date was due to fewer services being provided to maintenance customers.

Lower revenues led to corresponding decreases in the associated expenses. Foreign coach maintenance expenses of $27 thousand for the third quarter and $86 thousand for the nine months ended December 31, 2016 were on par with and $13 thousand below the corresponding 2015-16 periods respectively.

	Three months ended December 31		Nine months ended December 31	
	2016	2015	2016	2015
	(in thousands)			
Foreign coach maintenance revenue	$ 46	$ 56	$ 152	$ 183
Foreign coach maintenance expense	27	27	86	99
Foreign coach maintenance profit	$ 19	$ 29	$ 66	$ 84

Other Revenue

STC generates other revenue through alternative sources to help offset grant requirements. For the third quarter, other revenue totaled $384 thousand ($182 thousand in 2015-16) which includes the foreign coach maintenance revenue of $46 thousand ($56 thousand for 2015-16) discussed above. This increase of $202 thousand quarter-over-quarter was primarily attributable to a rebate issued by the Saskatchewan Workers' Compensation Board (WCB).

Similarly, other revenue totaled $969 thousand for the nine-month period ended December 31, 2016 ($835 thousand for 2015-16), a $134 thousand increase. These totals include the year-to-date foreign coach maintenance revenue of $152 thousand ($183 thousand for 2015-16) previously discussed. The year-to-date increase primarily reflects the additional WCB rebate offset by decreases in foreign coach maintenance revenue and several variable ancillary revenue streams contingent on ridership and express volumes.

Expenses

As part of the revenue discussion above, expenses were classified by function to assist with analysis of STC's different lines of business. The discussion below corresponds with the condensed statement of comprehensive income presentation.

Looking at STC's expenses as a whole for the third quarter, salaries, wages and short-term employee benefits of $3,829 thousand were $10 thousand higher than 2015-16. Operating costs of $2,652 thousand for the third quarter were $125 thousand higher when compared to $2,527 thousand for 2015-16. The increase in cost was largely the result of the timing of unpredictable, non-routine fleet maintenance. There were also advertising costs associated with the Senior Seat Sale and other promotions during the period. The Company's depreciation expense of $678 thousand for the third quarter was $52 thousand lower than 2015-16 given timing differences related to the replacement of fleet and other projects.

For the nine months ended December 31, 2016 salaries, wages and short-term employee benefits were $11,642 thousand compared to $11,459 thousand for the same period in the prior year, a $183 thousand increase.

Operating expenses for the nine months ended December 31, 2016 were $6,958 thousand, $178 thousand higher than the $6,780 thousand reported for the nine-month period in 2015-16. The most significant contributors to the variance related to increases in fleet maintenance expenses and building maintenance and occupancy costs. In addition, STC continued its advertising and promotions to help strengthen revenues. There were cost savings relating to changes in information processing and communications as well as variable items associated with lower ridership and express volumes, such as commissions paid to STC’s agents. Total depreciation for the nine months ended December 31, 2016 was $2,081 thousand, $394 thousand lower than the comparable 2015-16 period. The prior year’s comparable amount reflects an impairment that was recorded, and there was also timing differences related to capital asset replacements.

Outlook

Throughout the remainder of 2016-17, STC will continue working hard to strengthen existing customer relationships and establish new ones. The message to customers, as always, is to convey STC’s commitment to providing safe, affordable and accessible bus passenger and freight services to Saskatchewan. STC will invest in fleet, technology, people and facilities to support strategic goals of increasing revenues while maintaining high customer satisfaction ratings for both passengers and shippers.

The public transportation industry will continue to require government subsidies to ensure service levels are available beyond limited high traffic corridors. STC’s funding is required to ensure strategic investment occurs in new opportunities and tools. This will position STC to further increase the efficiency of the service delivery model for both bus passenger and freight services.

Saskatchewan Transportation Company
Condensed Statement of Financial Position
As at

		December 31, 2016 (unaudited)		March 31, 2016 (audited)
		(in thousands)		
Assets				
Current assets				
Cash	$	2,917	$	2,051
Accounts receivable		828		806
Inventories		379		351
Prepaid expenses		151		468
Assets held for sale		4		4
		4,279		3,680
Property and equipment (note 6)		34,766		35,946
	$	**39,045**	**$**	**39,626**
Liabilities and Province's Equity				
Liabilities				
Current liabilities				
Trade and other payables	$	2,701	$	2,549
Deferred capital grant		28,922		30,233
		31,623		32,782
Province of Saskatchewan's Equity				
Contributed surplus		465		465
Retained earnings		6,957		6,379
		7,422		6,844
	$	**39,045**	**$**	**39,626**

See accompanying notes

Saskatchewan Transportation Company
Condensed Statement of Comprehensive Income (Loss)
(unaudited)

	Three months ended December 31		Nine months ended December 31	
	2016	**2015**	**2016**	**2015**
		(in thousands)		
Revenue				
Express services	$ 1,851	$ 1,901	$ 5,410	$ 5,735
Passenger services	1,586	1,744	4,469	5,118
Other	384	182	969	835
Gain on disposal of property and equipment	-	45	-	74
	3,821	3,872	10,848	11,762
Expenses				
Operating costs other than those listed below	2,652	2,527	6,958	6,780
Salaries, wages and short-term employee benefits	3,829	3,819	11,642	11,459
Depreciation	678	730	2,081	2,475
	7,159	7,076	20,681	20,714
Loss before the following	(3,338)	(3,204)	(9,833)	(8,952)
Operating grant	3,000	2,000	8,500	8,300
Capital grant	622	680	1,911	2,319
Total comprehensive income (loss)	**$ 284**	**$ (524)**	**$ 578**	**$ 1,667**

See accompanying notes

Saskatchewan Transportation Company
Condensed Statement of Changes in Equity
(unaudited)

	Attributable to the Province of Saskatchewan		
	Retained Earnings	**Contributed Surplus**	**Total Equity**
		(in thousands)	
Balance at April 1, 2015	$ 5,186	$ 465	$ 5,651
Total comprehensive Income	1,667	-	1,667
Balance at December 31, 2015	6,853	465	7,318
Total comprehensive loss	(474)	-	(474)
Balance at March 31, 2016	6,379	465	6,844
Total comprehensive income	**578**	**-**	**578**
Balance at December 31, 2016	**$ 6,957**	**$ 465**	**$ 7,422**

See accompanying notes

Saskatchewan Transportation Company
Condensed Statement of Cash Flows
(unaudited)

	Nine months ended December 31	
	2016	**2015**
	(in thousands)	
Operating Activities		
Total comprehensive income	$ 578	$ 1,667
Items not involving cash:		
Depreciation	2,081	2,475
Gain on disposal of property and equipment	-	(74)
Recognition of capital grant	(1,911)	(2,319)
Net change in non-cash working capital	419	(793)
Cash provided by operating activities	1,167	956
Investing Activities		
Additions to property and equipment (note 6)	(901)	(2,542)
Proceeds on disposal of property and equipment (note 6)	-	94
Cash used in investing activities	(901)	(2,448)
Financing Activities		
Capital grant received	600	2,200
Repayment of operating demand loan	-	(500)
Cash provided by financing activities	600	1,700
Increase in cash	866	208
Cash, beginning of the period	2,051	1,392
Cash, end of the period	**$ 2,917**	**$ 1,600**

See accompanying notes

1. Status of the Company

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

STC has been designated a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of STC are included in the condensed consolidated financial statements of CIC.

As a provincial Crown corporation STC is not subject to Federal or Provincial income taxes in Canada.

STC's passenger rates are subject to rate regulation by the Motor Carrier Committee of the Saskatchewan Highway Traffic Board, which is a related party. The Motor Carrier Committee reviews applications for operating authority certificates under the *Traffic Safety Act*, and fixes rates and conditions of carriage for holders of these certificates or licenses of authority. STC holds operating authority on the routes it operates, but must seek approval for passenger rate changes from the Motor Carrier Committee.

2. Operations and financing

As a matter of public policy, STC will continue to provide bus passenger and express service to the communities of Saskatchewan. The Company will ensure that its commitment to servicing the province of Saskatchewan is kept uppermost in all of its planning. As a result of the public policy rationale for the operation of certain non-commercial routes, STC continues to be dependent upon CIC for its funding.

By way of Order in Council #282/2016, STC was authorized to obtain grant funding up to $14,200 thousand for the fiscal year's operating and capital requirements (March 31, 2016 - $13,700 thousand, Orders in Council #83/2015 and #605/2015). To date, STC requested and received $9,100 thousand of the $14,200 thousand authorized.

3. Basis of preparation

a. Statement of compliance

These condensed financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 – *Interim Financial Reporting*. These condensed financial statements do not include all the information required for full annual financial statements and should be read in conjunction with STC's audited annual financial statements for the 15-month period ended March 31, 2016.

The condensed financial statements were authorized for issue by STC's Board of Directors on February 28, 2017.

b. Basis of measurement

These condensed financial statements have been prepared on the historical cost basis.

c. Functional and presentation currency

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

d. Use of estimates and judgments

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

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

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

4. Significant accounting policies

The accounting policies and methods of computation used in the preparation of these condensed financial statements are consistent with those disclosed in STC's audited financial statements for the 15-month period ended March 31, 2016.

a. Changes in accounting policies during the period

Effective January 1, 2016, the Company adopted the following amended IFRSs:

- IFRS 7, *Financial Instruments: Disclosures* – Annual Improvements to IFRSs 2012-2014 Cycle
- IAS 1, *Presentation of Financial Statements* – amendments to Disclosure Initiative
- IAS 16, *Property, Plant and Equipment* – amendments to Clarification of Acceptable Methods of Depreciation and Amortization
- IAS 38, *Intangible Assets* – amendments to Clarification of Acceptable Methods of Depreciation and Amortization

These standard changes had no effect on the condensed financial statements of STC.

b. New standards and interpretations not yet adopted

The following new standards, and amendments to standards and interpretations, are not yet effective for the period and have not been applied in preparing these condensed financial statements:

- IFRS 9, *Financial Instruments* – effective January 1, 2018
- IFRS 15, *Revenue from Contracts with Customers* – effective January 1, 2018
- IFRS 16, *Leases* – effective January 1, 2019
- IAS 7, *Statement of Cash Flows* – amendments to Disclosure Initiative – effective January 1, 2017

The extent of the impact on adoption of these standards on the condensed financial statements of STC is not known at this time.

5. Financial instruments

The following summarizes the classification, carrying amounts and fair values of the Company's financial instruments:

			December 31, 2016		**March 31, 2016**	
	Classification	**Level**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
			(in thousands)			
Cash	FV	1	$ 2,917	$ 2,917	$ 2,051	$ 2,051
Accounts receivable	L&R	N/A	828	828	806	806
Trade and other payables	OL	N/A	2,701	2,701	2,549	2,549

Classification details are:
FV – fair value through profit or loss
L&R – loans and receivables
OL – other financial liabilities

Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of inputs used in the valuation.

Level 1 – Quoted prices are readily available from an active market.
Level 2 – Inputs, other than quoted prices included in Level 1, that are observable either directly or indirectly.
Level 3 – Inputs are not based on observable market data.

The fair value hierarchy is not applicable where the carrying amount approximates fair value due to the short-term nature of the financial instrument.

6. Property and equipment

During the period, the Company acquired property and equipment totaling $901 thousand. Of this, $136 thousand was related to buildings, $650 thousand was related to vehicles and $115 thousand was related to equipment.

7. Commitments

As at December 31, 2016, STC had outstanding significant commitments in the amount of $1,017 thousand for the purchase of coaches. Some of these fleet additions are expected to be delivered during the fourth quarter of 2016-17, and the remaining are expected to be delivered during the first quarter of 2017-18.