Saskatchewan Transportation Company
Second Quarter Report 2017-18

For the period ending September 30, 2017

Corporate Mandate

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

2017-18 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 six months ended September 30, 2017. The MD&A is as of October 19, 2017 and should be read in conjunction with STC's September 30, 2017 condensed financial statements. The September 30, 2017 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 2017-18 Annual Report, actual results and events may vary from those included in, contemplated by or implied by such statements.

On March 22, 2017, the Government of Saskatchewan announced that operating and capital subsidies to STC would cease in the 2017-18 fiscal year resulting in the wind up of the Company. STC's vehicular operations ended May 31, 2017, and the Company surrendered its operating authority certificate to the Saskatchewan Highway Traffic Board. STC and the Government of Saskatchewan are committed to a plan to liquidate the corporation.

Results of Operations

STC's results for the six months ended September 30, 2017 include two months of operations. Following the cessation of STC's vehicular operations on May 31, 2017, STC's focus has been on winding up the Company. STC ended its contractual obligations with Greyhound Canada on September 29, 2017 resulting in the Saskatoon and Regina depots being closed to the public.

For the six months ended September 30, 2017 the Company's loss before grants (including depreciation) was $4,912 thousand compared to the $6,495 thousand loss reported for the six months ended September 30, 2016. The financial results for the second quarter of 2017-18 reflect the cessation of operations at the end of May 2017 which impacted both revenues and expenses. Overall, STC's revenues were $2,308 thousand for the first six months of 2017-18 (only two months of operations), down from $7,027 thousand for the six months ended September 30, 2016. Expenses for the first six months of 2017-18 were $7,220 thousand compared to $13,522 thousand for the same period in 2016-17.

For the fiscal year ending March 31, 2018, an operating grant of $17,100 thousand from CIC was approved. At September 30, 2017, STC had received $7,000 thousand of the operating grant funds available.

Passenger Services

STC provided intercity bus passenger service to 253 Saskatchewan communities prior to cessation of operations on May 31, 2017. During the first six months of 2017-18, STC coaches travelled approximately 474 thousand miles (2016-17 – 1,428 thousand miles).

	Six months ended September 30	
	2017	2016
	(in thousands)	
Passenger service revenue	$ 926	$ 2,883
Passenger service operating expense	3,988	7,272
Passenger service loss	$ (3,062)	$ (4,389)

Total ridership for the two months of operations during 2017-18 was 25,197 compared to 48,303 in 2016-17 for six full months of operations.

Revenues from passenger services for the six months of 2017-18 were $926 thousand compared to $2,883 thousand reported in 2016-17. Expenses associated with operating passenger services were $3,988 thousand for the six months ended September 30, 2017 compared to $7,272 thousand for 2016-17.

Express Services

Prior to the cessation of operations on May 31, 2017, STC hauled freight throughout the province through its network of 174 agents and interconnecting arrangements with other carriers.

	Six months ended September 30	
	2017	2016
	(in thousands)	
Parcel express revenue	$ 1,135	$ 3,559
Parcel express operating expense	1,679	2,784
Parcel express profit	$ (544)	$ 775

For the six months ended September 30, 2017, revenues from express operations were $1,135 thousand compared to $3,559 thousand reported for the six months ended September 30, 2016. Expenses associated with operating express services were $1,679 thousand compared to $2,784 thousand for 2016-17.

Maintenance Services

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

For the six months ended September 30, 2017, maintenance service expenditures associated with maintaining the Company's fleet and preparing the fleet for sale (included in passenger and express services above) were $1,126 thousand compared to $1,940 thousand for the six months ended September 30, 2016.

The Company also used its facilities to provide maintenance and cleaning services for other transportation companies. The revenues derived from this service during the first six months of 2017-18 were $37 thousand compared to $106 thousand for the same period in 2016-17. The associated expenses were $24 thousand for 2017-18 compared to $59 thousand for 2016-17.

	Six months ended September 30	
	2017	2016
	(in thousands)	
Foreign coach maintenance revenue	$ 37	$ 106
Foreign coach maintenance expense	24	59
Foreign coach maintenance profit	$ 13	$ 47

Other Revenue

STC generated other revenue through alternative sources to help offset grant requirements. For the first six months, other revenue totaled $262 thousand ($585 thousand in 2016-17) which includes the foreign coach maintenance revenue of $37 thousand ($106 thousand for 2016-17) discussed above.

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 (loss) income presentation.

Looking at STC's expenses as a whole, salaries, wages and short-term employee benefits were $4,021 thousand compared to $7,813 for the same period in 2016-17, as STC is adjusting staffing levels to meet requirements throughout the wind up. Operating costs of $2,755 thousand for the six months ended September 30, 2017 compared to $4,306 thousand for 2016-17. The Company's depreciation expense of $444 thousand reflects the reclassification of property and equipment to assets held for sale and the ceasing of depreciation as of May 31, 2017.

Saskatchewan Transportation Company
Condensed Statement of Financial Position
As at

		September 30, 2017 (unaudited)		March 31, 2017 (audited)
		(in thousands)		
Assets				
Current assets				
Cash	$	2,771	$	3,268
Accounts receivable (note 5)		44		1,521
Inventories		182		294
Prepaid expenses		241		380
Assets held for sale (note 6)		19,469		4
		22,707		5,467
Property and equipment (note 7)		38		19,894
	$	**22,745**	**$**	**25,361**
Liabilities and Province's Equity				
Liabilities				
Current liabilities				
Trade and other payables	$	4,198	$	8,902
Deferred capital grant		14,532		14,956
		18,730		23,858
Province of Saskatchewan's Equity				
Contributed surplus		465		465
Retained earnings		3,550		1,038
		4,015		1,503
	$	**22,745**	**$**	**25,361**

See accompanying notes

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

	Three months ended September 30		Six months ended September 30	
	2017	**2016**	**2017**	**2016**
		(in thousands)		
Revenue				
Express services	$ 312	$ 1,806	$ 1,135	$ 3,559
Passenger services	65	1,479	926	2,883
Other	89	412	262	585
Gain on disposal of property	(15)			
and equipment	-	-	(15)	-
	451	3,697	2,308	7,027
Expenses				
Operating costs other than those listed below	843	2,212	2,755	4,306
Salaries, wages and short-term employee benefits	1,403	3,922	4,021	7,813
Depreciation and impairment (note 7)	24	697	444	1,403
	2,270	6,831	7,220	13,522
Loss before the following	(1,819)	(3,134)	(4,912)	(6,495)
Operating grant	-	3,000	7,000	5,500
Capital grant	41	640	424	1,289
Total comprehensive (loss) income	**$ (1,778)**	**$ 506**	**$ 2,512**	**$ 294**

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 March 31, 2016	$ 6,379	$ 465	$ 6,844
Total comprehensive income	294	-	294
Balance at September 30, 2016	6,673	465	7,138
Total comprehensive loss	(5,129)	-	(5,129)
Balance at March 31, 2017	**1,038**	**465**	**2,009**
Total comprehensive income	**2,512**	**-**	**2,512**
Balance at September 30, 2017	**$ 3,550**	**$ 465**	**$ 4,015**

See accompanying notes

Saskatchewan Transportation Company
Condensed Statement of Cash Flows
(unaudited)

	Six months ended September 30	
	2017	**2016**
	(in thousands)	
Operating activities		
Total comprehensive income	$ 2,512	$ 294
Items not involving cash:		
Depreciation and impairment (note 7)	444	1,403
Recognition of capital grant	(424)	(1,289)
(Gain) loss on disposal of property and equipment	15	-
Net change in non-cash working capital	(2,976)	(663)
Cash used in operating activities	(429)	(255)
Investing activities		
Additions to property and equipment (note 7)	(70)	(349)
Proceeds on disposal of property and equipment	2	
Cash used in investing activities	(68)	(349)
Financing activities		
Capital grant received	-	600
Cash provided by financing activities	-	600
Decrease in cash	(497)	(4)
Cash, beginning of the period	3,268	2,051
Cash, end of the period	**$ 2,771**	**$ 2,047**

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.

On March 22, 2017, the Government of Saskatchewan announced that operating and capital subsidies to STC would cease in the 2017-18 fiscal year resulting in the wind up of the Company. STC's vehicular operations ended May 31, 2017, and the Company surrendered its operating authority certificate to the Saskatchewan Highway Traffic Board. STC and the Government of Saskatchewan are committed to a plan to liquidate the corporation.

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.

By virtue of *The Crown Corporations Act, 1993* STC has been designated a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of STC are included in the consolidated financial statements of CIC.

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

2. Operations and financing

By way of Order in Council #157/2017, STC was authorized to obtain grant funding up to $17,100 thousand for the fiscal year's operating requirements (March 31, 2017 - $14,200 thousand for operating and capital requirements, Order in Council #282/2016). To date, STC requested and received $7,000 thousand of the $17,100 thousand authorized.

3. Basis of preparation

a. Going concern
STC is no longer able to operate as a going concern given its impending wind up. As such, these financial statements reflect the liquidation of the Company's assets and settlement of the Company's obligations within the next 12-month period.

b. 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 ended March 31, 2017.

The condensed financial statements were authorized for issue by STC's Board of Directors on October 19, 2017.

c. Basis of measurement
These condensed financial statements have been prepared on the historical cost basis unless otherwise indicated.

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

e. Use of estimates and judgments
The preparation of 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. Estimates are used to determine the net realizable value of inventory as well as the allowance for slow moving and obsolete inventory. Depreciation is based on the estimated useful lives of property and equipment. Tangible assets are reviewed for impairment periodically using estimates of recoverable amounts to determine if there is an impairment loss. Judgement is required to determine when assets are held for sale and are then adjusted to the lower of carrying amount and estimated fair value less costs to sell. Certain obligations, including those related to the wind up, require judgement to estimate the most likely expenditure required to settle the obligation. The accrual for compensated absences is based on an estimate of historical usage and current staffing levels.

4. Significant accounting policies

Changes in accounting policies during the period
Effective April 1, 2017, the Company adopted the following amended IFRS:

- IFRS 9, *Financial Instruments* – STC elected to early adopt this standard prospectively. There is no material impact on the accounting treatment of STC's financial instruments. There were some minor impacts on disclosure requirements.
- IAS 7, *Statement of Cash Flows* – There is no effect on the financial statements of STC.

The remaining 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 ended March 31, 2017.

5. Financial instruments

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

			September 30, 2017		March 31, 2017	
	Classification	Level	Carrying amount	Fair value	Carrying amount	Fair value
			(in thousands)			
Cash	FVTPL	1	$ 2,771	$ 2,771	$ 3,268	$ 3,268
Accounts receivable	AC	N/A	44	44	1,521	1,521
Trade and other payables	AC	N/A	4,198	4,198	8,902	8,902

Classification details are:
FVTPL – fair value through profit or loss
AC – amortized cost

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.

Credit risk
Credit risk is the risk that one party to a transaction will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risk through cash and accounts receivable. Cash is held with a major chartered Canadian bank and management believes the risk of loss to be minimal. The Company extends credit to its customers in the normal course of business and is exposed to credit risk in the event of non-performance by customers. The carrying amounts for accounts receivable are net of applicable allowances for doubtful accounts, which are estimated based on past experience, specific risks identified with the customer and other relevant information. STC monitors the credit risk and credit rating of customers on a regular basis.

The maximum exposure to credit risk is $2,815 thousand (March 31, 2017 - $4,789 thousand) equal to the carrying amount of the Company's financial assets (cash - $2,771 thousand (March 31, 2017 - $3,268 thousand) and accounts receivable - $44 thousand (March 31, 2017 - $1,521 thousand)).

The following table sets out details of the age of accounts receivables and allowance for doubtful accounts:

		September 30, 2017		March 31, 2017
		(in thousands)		
Gross accounts receivable:				
Current	$	41	$	1,220
Up to three months past due date		5		360
Greater than three months past due date		4		71
		50		1,651
Allowance for doubtful accounts, beginning of the period		(130)		(151)
Adjustment		115		-
Accounts written off		9		21
Allowance for doubtful accounts, end of the period		(6)		(130)
Net accounts receivable	**$**	**44**	**$**	**1,521**

Liquidity risk
Liquidity risk is the risk that the Company will encounter difficulty meeting its financial obligations as they become due. All of the Company's financial liabilities are due within the next 12-month period. Management believes that the Company's ability to generate and acquire funds, including grants received from CIC, will support the settlement of these financial liabilities.

6. Assets held for sale

Property and equipment that are expected to be disposed of by sale within the next 12-month period have been classified as assets held for sale on the statement of financial position. Depreciation of these assets ceased effective May 31, 2017, the date STC concluded operations. The carrying amount of these assets approximates fair value.

	September 30, 2017						March 31, 2017	
		Cost		Accumulated Depreciation		Net Book Value		Net Book Value
				(in thousands)				
Assets held for sale	$	70,188	$	50,719	$	19,469	$	4

7. Property and equipment

	Land	Buildings	Vehicles	Other equipment	Total
			(in thousands)		
Cost or deemed cost					
Balance at March 31, 2016	$ 4,654	$ 37,829	$ 17,893	$ 8,663	$ 69,039
Additions	-	212	991	159	1,362
Balance at March 31, 2017	4,654	38,041	18,884	8,822	70,401
Additions	**-**	**3**	**-**	**11**	**14**
Assets held for sale	**(4,654)**	**(38,044)**	**(18,884)**	**(8,402)**	**(69,984)**
Balance at September 30, 2017	**-**	**-**	**-**	**431**	**431**
Depreciation					
Balance at March 31, 2016	-	14,090	11,504	7,499	33,093
Depreciation	-	1,125	1,271	358	2,754
Impairment	-	10,987	3,197	476	14,660
Balance at March 31, 2017	-	26,202	15,972	8,333	50,507
Depreciation	**-**	**186**	**180**	**75**	**441**
Impairment	**-**	**3**	**-**	**-**	**3**
Assets held for sale	**-**	**(26,391)**	**(16,152)**	**(8,015)**	**(50,558)**
Disposals	**-**	**-**	**-**	**-**	**-**
Balance at September 30, 2017	**-**	**-**	**-**	**393**	**393**
Carrying Amounts					
At March 31, 2017	$ 4,654	$ 11,839	$ 2,912	$ 489	$ 19,894
At September 30, 2017	**$ -**	**$ -**	**$ -**	**$ 38**	**$ 38**

The majority of STC's property and equipment became available for sale following the cessation of vehicular operations on May 31, 2017. These assets were reclassified as assets held for sale at that date. There is also equipment that will be abandoned rather than sold, such as software and licenses. These assets remain classified as property and equipment and continue to depreciate.