Saskatchewan Transportation Company
Third Quarter Report 2017-18

For the period ending December 31, 2017

Table of Contents

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, 2017. The MD&A should be read in conjunction with STC's December 31, 2017 condensed financial statements. The December 31, 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 nine months ended December 31, 2017 include two months of vehicular 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.

For the nine months ended December 31, 2017 the Company's loss before grants (including depreciation) was $5,360 thousand compared to the $9,833 thousand loss reported for the nine months ended December 31, 2016. The financial results for the third quarter of 2017-18 reflect the cessation of vehicular operations at the end of May 2017 which impacted both revenues and expenses. Overall, STC's revenues were $3,457 thousand for the nine months ended December 31, 2017 (only two months of vehicular operations and includes a $1,087 thousand gain on disposal of property, equipment and assets held for sale), down from $10,848 thousand for the nine months ended December 31, 2016. Expenses for the nine months ended December 31, 2017 were $8,817 thousand compared to $20,681 thousand for the same period in 2016.

For the fiscal year ending March 31, 2018, an operating grant of $17,100 thousand from CIC was approved. At December 31, 2017, STC had received $8,000 thousand of the operating grant funds available.

Passenger Services

STC provided intercity bus passenger service to 253 Saskatchewan communities prior to cessation of vehicular operations on May 31, 2017. During the nine months ended December 31, 2017, STC coaches travelled approximately 474 thousand miles compared to 2,138 thousand miles for the same period in 2016.

	Nine months ended December 31 2017	2016
	(in thousands)	
Passenger service revenue	$ 929	$ 4,469
Passenger service operating expense	3,988	11,321
Passenger service profit	$ (3,059)	$ (6,852)

Total ridership for the two months of operations during 2017-18 was 25,197 compared to 142,329 in 2016-17 for nine full months of operations.

Revenues from passenger services for the nine months ended December 31, 2017 were $929 thousand compared to $4,469 thousand for the same period in 2016. Expenses associated with operating passenger services were

$3,988 thousand for the nine months ended December 31, 2017 compared to $11,321 thousand for the same period in 2016.

Express Services

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

	Nine months ended December 31			
		2017		2016
	(in thousands)			
Parcel express revenue	$	1,130	$	5,410
Parcel express operating expense		1,679		4,240
Parcel express profit	$	(549)	$	1,170

For the nine months ended December 31, 2017, revenues from express operations were $1,130 thousand compared to $5,410 thousand reported for the nine months ended December 31, 2016. Expenses associated with operating express services were $1,679 thousand compared to 4,240 thousand for the same period in 2016.

Maintenance Services

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

For the nine months ended December 31, 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 $3,055 thousand for the nine months ended December 31, 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 nine months ended December 31, 2017 were $37 thousand compared to $152 thousand for the same period in 2016. The associated expenses were $24 thousand for the nine months ended December 31, 2017 compared to $86 thousand for the same period in 2016.

	Nine months ended December 31			
		2017		2016
	(in thousands)			
Foreign coach maintenance revenue	$	37	$	152
Foreign coach maintenance expense		24		86
Foreign coach maintenance profit	$	13	$	66

Other Revenue

STC generated other revenue through alternative sources to help offset grant requirements. For the nine months ended December 31, 2017, other revenue totaled $311 thousand compared to $969 thousand for the same period in 2016. This value includes foreign coach maintenance revenue of $37 thousand and $152 thousand for December 31, 2017 and December 31, 2016 respectively.

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, salaries, wages and short-term employee benefits were $4,745 thousand for the nine months ended December 31, 2017 compared to $11,642 thousand for the same period in 2016, as STC adjusted staffing levels to meet requirements throughout the wind up. Operating costs were $3,590 thousand for the nine months ended December 31, 2017 compared to $6,958 thousand for the same period in 2016. The lower operating costs were a result of winding up operations. The Company's depreciation and impairment expense of $482 thousand reflects the reclassification of property and equipment to assets held for sale and the ceasing of depreciation as of May 31, 2017.

Gain on Disposal of Property, Equipment and Assets Held for Sale

For the nine months ended December 31, 2017, some property, equipment and assets held for sale were disposed of as part of the wind up. Three of six depot properties and all fleet and equipment were sold. The assets sold for net proceeds of $6,507 thousand and had a net book value of $5,420 thousand. As a result, the condensed statement of comprehensive income includes a $1,087 thousand gain on disposal of property, equipment and assets held for sale. Deferred capital grant of $3,977 thousand was recognized in the condensed statement of comprehensive income due to the sale of these assets.

Saskatchewan Transportation Company
Condensed Statement of Financial Position
As at

	December 31, 2017 (unaudited)		March 31, 2017 (audited)	
	(in thousands)			
Assets				
Current assets				
Cash	$	7,630	$	3,268
Accounts receivable (note 5)		36		1,521
Inventories		-		294
Prepaid expenses		-		380
Assets held for sale (note 6)		14,067		4
		21,733		5,467
Property and equipment (note 7)		-		19,894
	$	**21,733**	**$**	**25,361**
Liabilities and Province's Equity				
Liabilities				
Current liabilities				
Trade and other payables	$	2,633	$	8,902
Defered capital grant		10,537		-
		13,170		8,902
Deferred capital grant		-		14,956
		13,170		23,858
Province of Saskatchewan's Equity				
Contributed surplus		465		465
Retained earnings		8,098		1,038
		8,563		1,503
	$	**21,733**	**$**	**25,361**

See accompanying notes

Saskatchewan Transportation Company
Condensed Statement of Comprehensive Income
(unaudited)

	Three months ended December 31		Nine months ended December 31	
	2017	**2016**	**2017**	**2016**
		(in thousands)		
Revenue				
Express services	$ (5)	$ 1,851	$ 1,130	$ 5,410
Passenger services	3	1,586	929	4,469
Other	49	384	311	969
Gain on disposal of property, equip. and assets held for sale	1,102	-	1,087	-
	1,149	3,821	3,457	10,848
Expenses				
Operating costs other than those listed below	835	2,652	3,590	6,958
Salaries, wages and short-term employee benefits	724	3,829	4,745	11,642
Depreciation and impairment (note 7)	38	678	482	2,081
	1,597	7,159	8,817	20,681
Loss before the following	(448)	(3,338)	(5,360)	(9,833)
Operating grant	1,000	3,000	8,000	8,500
Capital grant	3,996	622	4,420	1,911
Total comprehensive income	**$ 4,548**	**$ 284**	**$ 7,060**	**$ 578**

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	578	-	578
Balance at December 31, 2016	6,957	465	7,422
Total comprehensive loss	(5,919)	-	(5,919)
Balance at March 31, 2017	**1,038**	**465**	**1,503**
Total comprehensive income	**7,060**	**-**	**7,060**
Balance at December, 31 2017	**$ 8,098**	**$ 465**	**$ 8,563**

See accompanying notes

Saskatchewan Transportation Company
Condensed Statement of Cash Flows
(unaudited)

	Nine months ended December 31	
	2017	**2016**
	(in thousands)	
Operating activities		
Total comprehensive income	$ 7,060	$ 578
Items not involving cash:		
Depreciation and impairment (note 7)	482	2,081
Recognition of capital grant	(4,420)	(1,911)
Gain on disposal of property, equipment and assets held for sale	(1,087)	-
Net change in non-cash working capital	(4,110)	419
Cash used in operating activities	(2,075)	1,167
Investing activities		
Additions to property and equipment (note 7)	(70)	(901)
Proceeds on disposal of property, equipment and assets held for sale	6,507	-
Cash used in investing activities	6,437	(901)
Financing activities		
Capital grant received	-	600
Cash provided by financing activities	-	600
Increase in cash	4,362	866
Cash, beginning of the period	3,268	2,051
Cash, end of the period	**$ 7,630**	**$ 2,917**

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 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.

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.

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 $8,000 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 continuing wind up. As such, these financial statements reflect the liquidation of the Company's assets and settlement of the Company's obligations.

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 February 28, 2018.

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. Property and equipment 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:

			December 31, 2017		**March 31, 2017**	
	Classification	**Level**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
				(in thousands)		
Cash	FVTPL	1	$ 7,630	$ 7,630	$ 3,268	$ 3,268
Accounts receivable	AC	N/A	36	36	1,521	1,521
Trade and other payables	AC	N/A	2,633	2,633	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 $7,666 thousand (March 31, 2017 - $4,789 thousand) equal to the carrying amount of the Company's financial assets cash - $7,630 thousand (March 31, 2017 - $3,268 thousand) and accounts receivable - $36 thousand (March 31, 2017 - $1,521 thousand)).

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

	December 31, 2017	March 31, 2017
	(in thousands)	
Gross accounts receivable:		
Current	$ 36	$ 1,220
Up to three months past due date	-	360
Greater than three months past due date	-	71
	36	1,651
Allowance for doubtful accounts, beginning of the period	(130)	(151)
Recoveries	118	-
Accounts written off	12	21
Allowance for doubtful accounts, end of the period	-	(130)
Net accounts receivable	**$ 36**	**$ 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 vehicular operations. As of December 31, 2017, there have been no changes to the recoverable amounts of its property, equipment and assets held for sale therefore no further impairments. The carrying amount of these assets approximates fair value. As of December 31, 2017, assets held for sale sold for net proceeds of $6,507 thousand and had a net book value of $5,420 thousand. As a result, the condensed statement of comprehensive income includes a $1,087 thousand gain on disposal of property, equipment and assets held for sale. Deferred capital grant of $3,977 thousand was recognized in the condensed statement of comprehensive income due to the sale of these assets.

	December 31, 2017			March 31, 2017
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
		(in thousands)		
Assets held for sale	$ 38,538	$ 24,471	$ 14,067	$ 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**
Disposals	**-**	**-**	**-**	**(431)**	**(431)**
Assets held for sale	**(4,654)**	**(38,044)**	**(18,884)**	**(8,402)**	**(69,984)**
Balance at December 31, 2017	**-**	**-**	**-**	**-**	**-**
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**	**-**	**38**	**41**
Assets held for sale	**-**	**(26,391)**	**(16,152)**	**(8,015)**	**(50,558)**
Disposals	**-**	**-**	**-**	**(431)**	**(431)**
Balance at December 31, 2017	**-**	**-**	**-**	**-**	**-**
Carrying Amounts					
At March 31, 2017	$ 4,654	$ 11,839	$ 2,912	$ 489	$ 19,894
At December 31, 2017	**-**	**-**	**-**	**$ -**	**$ -**

The announcement by the Government of Saskatchewan that STC will be wound up provided indication that STC's property and equipment could be impaired. As a result, management was required to estimate the recoverable amount of its property and equipment as of March 31, 2017. For these assets the recoverable amount was determined to be the estimated fair value less costs to sell. These assets were assessed on an individual basis to determine the estimated fair value less costs to sell using independent appraisals and valuations. Where the fair value less costs to sell was lower than the carrying amount, the asset was considered impaired and was written down to fair value less costs to sell. As a result, an impairment loss of $14,514 thousand was recognized within depreciation and impairment expense as of March 31, 2017, on the statement of comprehensive (loss) income.

Most of these assets were originally purchased with grant funding, and therefore the impairment loss for these assets was offset by the recognition of a corresponding $13,783 thousand of capital grant revenue as of March 31, 2017. The net effect on total comprehensive (loss) income was $731 thousand. As a result of the impairment loss, property and equipment decreased by $14,514 thousand and deferred capital grant decreased by $13,783 thousand on the statement of financial position as of March 31, 2017.

There were also items of property and equipment that have been abandoned rather than sold, such as software and licenses. For these assets the recoverable amount was determined, on an individual basis, to be the asset's value in use. The total carrying amount of these assets as of March 31, 2017 was $232 thousand while the total value in use was $86 thousand. The impairment loss of $146 thousand was recognized within depreciation and impairment expense as of March 31, 2017. STC determined during the year the useful life of these assets required reevaluation. The remaining value in use as of October 31, 2017 was determined to be nil resulting in an impairment of the remaining carrying amount. The impairment loss for these other assets was $38 thousand.

These assets were originally purchased with grant funding, and therefore the impairment loss was offset by the recognition of a corresponding $38 thousand of capital grant revenue for the period (March 31, 2017 - $232 thousand). There was no net effect on total comprehensive (loss) income. As a result of the impairment loss, property and equipment and the deferred capital grant each decreased by $38 thousand on the statement of financial position.

The majority of STC's property and equipment became available for sale following the cessation of vehicular operations on May 31, 2017.