

Saskatchewan Grain Car Corporation



Annual Report for 2013-14

Table of Contents

- Letter of Transmittal**..... 2
- President’s Message** 3
- SGCC Quick Facts**..... 4
- Corporate Profile**..... 5
- Corporate Overview** 6
- Core Business** 7
- 2013-14 Financial Overview** 10
- Management’s Report** 11
- Independent Auditors’ Report** 12
 - Statement of Financial Position..... 13
 - Statement of Operations and Net Assets..... 14
 - Statement of Change in Net Financial Assets 15
 - Statement of Cash Flows 16
 - Notes to Financial Statements..... 17
 - Schedule of Administration Expenses 21
- Statistical Summary**..... 22
- Notes to Statistical Summary**..... 23
- Corporate Information** 24

Letter of Transmittal



October 15, 2014

The Honourable Vaughn Solomon Schofield
Lieutenant Governor of Saskatchewan

I have the honour to submit herewith the Annual Report of the Saskatchewan Grain Car Corporation for the fiscal year ending July 31, 2014 in accordance with The Saskatchewan Grain Car Corporation Act. The Financial Statements are in the form approved by Treasury Board and have been duly certified by auditors for the Corporation.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Nancy Heppner".

Hon. Nancy Heppner
Minister Responsible for the
Saskatchewan Grain Car Corporation

President's Message

October 3, 2014

The Honourable Nancy Heppner
Chairperson of the Board

As President of the Saskatchewan Grain Car Corporation (SGCC), I am pleased to present the annual report for the fiscal year ending July 31, 2014.

We continue to be mindful of our mandate of "maximizing economic benefits to Saskatchewan agriculture, industry, and the province in general through effective and efficient utilization of our resources".

Our entire fleet remains fully leased and committed to the movement of western grains through the network of both shortline and national railways.

The SGCC will continue to focus on core operations in supplying high quality hopper cars for the transport of western grains, particularly given the year's grain movement crisis. Record production, dramatic weather, and rail network challenges all combined to create a grain backlog that was unprecedented. The long term viability of the hopper car fleet is all the more critical given these present circumstances and regular inspections with proactive maintenance measures will continue.

The Corporation carried through with the blast, paint and decal initiative from the previous year, with fifty three more cars being repainted for a total of one hundred and sixteen through this latest program.

Grain movements to port account for the majority of utilization, and it is anticipated that the backlog, combined with new marketing opportunities for grains, will still necessitate a strong need for car movement and availability well into the foreseeable future. We, at the Corporation, look forward to meeting and fulfilling these ongoing needs as well as new opportunities within the agriculture and transportation sector as they arise.

Positive relations with all stakeholders remain as a high priority with Corporation staff, and through our mutually beneficial working relationships we look forward to the challenges and promise of the future.



Robert (Bob) Mason
President and CEO

SGCC Quick Facts

as of July 31, 2014

Corporation Established

Oct 2, 1979

Office

Regina

Board of Directors

Honourable Nancy Heppner, Chairperson

Honourable Lyle Stewart, Vice Chairperson

Fleet

Cars in service	902
Cars allocated to LMR (SKNX 397000-397476)	415
Cars allocated to CPR (SKPX 625000-625522)	487
Cars destroyed to date	98
Car volume	128.8 m3 (4550 ft3)
LD LMT (Load Limit)	101,605 kg (224,000 lbs)
LT WT (Light Weight - empty)	28,123 kg (62,000 lbs)
Gross Weight	129,728 kg (286,000 lbs)
Material	Steel
Lining	Epoxy
Dates built	February, 1981 to October, 1981
Service Life Remaining	16 years

Financial

Tangible capital assets as of July 31, 2014 – Hopper cars	\$ 8,831,210
Total dividends paid to the General Revenue Fund to date	\$18,500,000

Governing Legislation & Lease Agreements

The Saskatchewan Grain Car Corporation Act

Lease Agreement with Canadian Pacific Railway Ltd. (CPR)

Lease Agreement with Last Mountain Railway (LMR)

Corporate Profile

Profile

In 1981, the Government of Saskatchewan made a strategic investment of approximately \$55,000,000 in Canada's grain transportation system by purchasing 1,000 covered hopper cars for the movement of export grain grown by western producers. The Saskatchewan Grain Car Corporation (SGCC), a Treasury Board Crown Corporation, was established under the authority of *The Saskatchewan Grain Car Corporation Act*.

The SGCC is governed by a Board of Directors who oversee the management of the Corporation. The Chair of the Board is also the Minister Responsible for the Saskatchewan Grain Car Corporation, who functions as a link between the Corporation and Cabinet, as well as the Provincial Legislative Assembly.

Mission

The Saskatchewan Grain Car Corporation will maximize the economic benefits to Saskatchewan agriculture as a first priority, other Saskatchewan industries as a second priority, and the province in general, through the effective and efficient use of its resources.

Vision

To have an effective, efficient and affordable grain handling and rail transportation system that is the best in the world.

Mandate

In partnership with farmers, and community groups, and in cooperation with shippers and railroads enhance the effectiveness and efficiency of transporting and handling grain.

Values

We believe that through innovation and, by using the assets and intellectual capital resident in the Saskatchewan Grain Car Corporation, we can improve the agricultural economy of Saskatchewan by ensuring that producers have influence on grain transportation policies and practices and that producers benefit from modernization of the grain logistics system.

The Saskatchewan Grain Car Corporation is a workplace of choice because we value creativity, fairness, honesty, excellence, accountability, and personal development, as the most important priorities for our jobs and our working relationships.

Corporate Overview

The Saskatchewan Grain Car Corporation (SGCC) is a Treasury Board Crown Corporation responsible for the management of the Provincial hopper car fleet. In the 2013-14 fiscal year, the SGCC continued to remain focused on achieving its mission “to maximize the economic benefits to Saskatchewan agriculture as a first priority, other Saskatchewan industries as a second priority, and the province in general, through the effective and efficient use of its resources”.

The Corporation leases hopper cars for movement of western grain in the Grain Transportation and Handling System (GTHS). In the 2013-14 fiscal year, the GTHS experienced many challenges with the movement of grain. Record breaking production combined with grain transportation delays resulted in backlogs of grain shipments. Hopper cars play a vital role in the transportation of western grain to export position and inland processing. As such it is imperative that the SGCC provide reliable and safe hopper cars to the GTHS.

The SGCC preforms random inspections to ensure the lessees are maintaining the hopper cars as per their contractual agreements. The SGCC also evaluates the condition of the hopper cars and completes maintenance projects that are outside the responsibility of the lessee such as the Hopper Car Blast, Paint and Decal program.

The SGCC continues to fund the Shortline Railway Sustainability Program (SRSP) and provide the financial administration for the program. The SRSP is a program that provides matching grants to Saskatchewan Shortlines for the repair and maintenance of railway track infrastructure.

In the 2014-15 fiscal year, we will continue to work with our stakeholders and look forward to new opportunities and challenges.

2013-14 Key Activities

Customers - Leasing

- Leasing (415) hopper cars to Last Mountain Railway (LMR) under a commercial agreement.
- Leasing (487) hopper cars to Canadian Pacific Railway (CPR) under a commercial agreement.
- Engaged a consultant to prepare a report on current market rates for covered hopper cars.

Asset Management – Hopper Cars

- Completed random inspections throughout the year.
- One hopper car destroyed in 2013-14.
- To date a total of 98 cars have been destroyed.
- Member in good standing of the Association of American Railroads.

Asset Management - Blast, Paint and Decal Program

- 296 cars repainted to date, approximately 33% of the fleet.
- 67% of the SGCC fleet has original 1981 paint.

Shortline Railway Sustainability Program

- Financial administration of matching grant funding for Saskatchewan shortlines.

West Central Road & Rail Ltd.

- Contracted and shipped approximately 330,000 metric tonnes.
- The SGCC will be divesting the remaining 2,000 shares in November 2014.

Advisory Services

- Provide advice and ongoing assistance to stakeholders and other jurisdictions on hopper car asset management and grain transportation issues.

Core Business

The SGCC's core business is the management of the 902 covered hopper cars. The SGCC is a self-sustaining Treasury Board Crown Corporation that collects revenues from leasing hopper cars in the Grain Transportation and Handling System (GTHS).

Commercial Lease Agreements

The SGCC hopper car fleet is leased to Saskatchewan shortlines on a first priority. As such, the Corporation ensures that each fiscal year there are cars available to lease if Saskatchewan shortlines are interested.

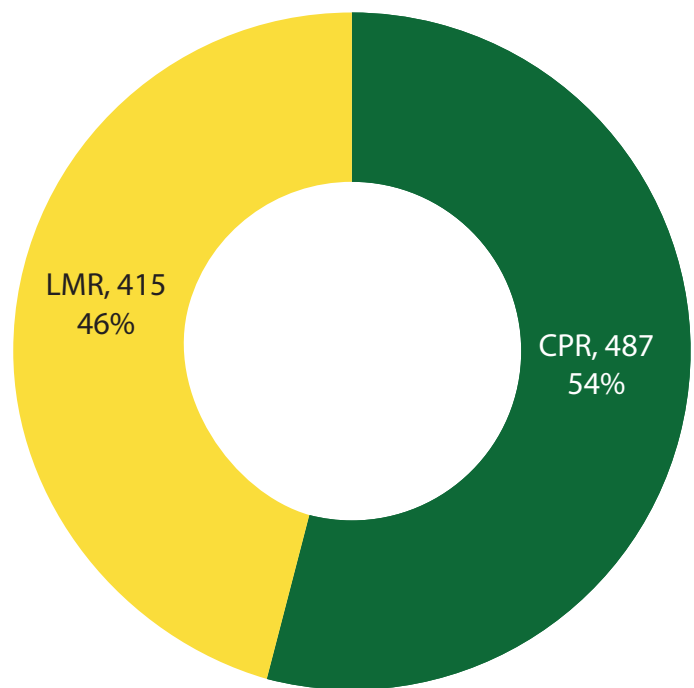
Last Mountain Railway (LMR) is currently the only Saskatchewan shortline leasing hopper cars from the Corporation. LMR has 415 hopper cars leased under a commercial agreement. LMR has been leasing the hopper cars for the past three years. The hopper cars are an integral component to the business operations of LMR.

Canadian Pacific Railway (CPR) continues to lease the remaining 487 hopper cars in the SGCC fleet. The cars are leased under a commercial agreement with staggered renewal terms to accommodate the province's commitment to lease to Saskatchewan shortlines. The lease agreement with CPR allows them more flexibility in the management of the hopper cars and also provides the SGCC with a consistent revenue stream. The greater flexibility of the usage of the SGCC hopper cars provides opportunities to gain efficiencies in the GTHS.

The SGCC had four hopper cars remaining with Canadian National Railway (CN) at the beginning of the 2013-14 fiscal year. These cars were returned and transferred to LMR. There are no cars remaining on lease to CN.

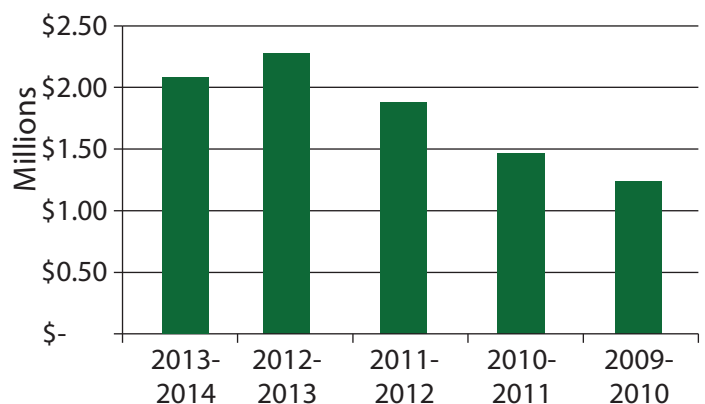
As in past years, the SGCC engaged AllTranstek LLC, the largest railroad management and consulting firm in North America, to prepare a report on the estimated lease market rates for covered hopper cars. The SGCC will continue to complete this report on an annual basis as it is used as a reference during lease negotiations.

Hopper Car Allocation
as of July 31, 2014



In 2013-14, total hopper car leasing revenues reached \$2.1 Million, a slight decrease from the previous \$2.2 Million for the previous year.

5 Year Comparison of Leasing Revenues



Core Business

Asset Management

The SGCC takes a very proactive approach to hopper car maintenance through regular inspections of the fleet. The monitoring and maintenance helps to ensure the long term viability and reliability of the SGCC hopper car fleet. The SGCC strives to have a hopper car fleet that is in good working condition and that are safe and reliable for our customers.

Regular inspections are completed on the fleet to ensure lessees are maintaining the hopper car fleet as per their contractual agreements and maintenance concerns outside the agreements are monitored such as corrosion. The SGCC addresses concerns with the lessee of the hopper cars and ensures that the maintenance deficiencies are addressed.

The hopper car blast, paint and decal program continued in the 2013-14 fiscal year. This program is designed to ensure the long term viability of the hoppers cars by addressing corrosion issues on the hopper cars.

As a member in good standing with the Association of American Railroads (AAR), SGCC has access to important information on industry changes and maintenance requirements. The SGCC also keeps abreast of any updates, rules or regulation changes governed by Transport Canada and the Federal Railway Administration. In order to maintain a proactive approach to maintenance it is imperative that SGCC has all the current information on the rules and regulations affecting the hopper car fleet.

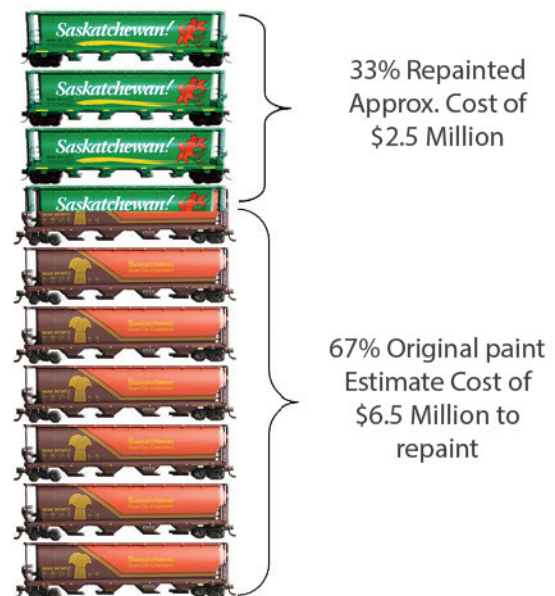
In the case when a SGCC hopper car is damaged beyond repair, the SGCC is compensated based on the AAR rules. The lessee responsible for the hopper car is required to inform SGCC of the damaged hopper car and then a decision is made whether to repair or destroy the hopper car. This fiscal year the SGCC had one hopper car destroyed. To date, a total of 98 destroyed hopper cars.

Hopper Car Blast, Paint and Decal Program

The hopper car blast, paint and decal program is a preventative maintenance practice that is important in ensuring the asset is viable until the end of its useful life. During the regular inspection process, the Corporation monitors the external condition of the hopper cars and determines the need to repaint. The main concern related to the external condition of the hopper cars is corrosion and the long term effects on the steel integrity. Repainting is a preventative measure that provides a protective barrier.

Over the past eight years, the Corporation has invested approximately \$2.5 Million in blasting, painting and decaling a portion of the SGCC hopper car fleet. The Corporation has repainted 33% of the fleet with 296 cars completed.

The Corporation has a graffiti policy that focuses on removing any graffiti that impacts on safety or is offensive, racist, sexist and/or politically motivated. In 2013-14, there were no SGCC hopper cars repainted due to graffiti.



Core Business

West Central Road & Rail Ltd.

The SGCC partnered with West Central Road & Rail Ltd. (WCRR) in 1999 during the Grain Logistic Pilot Project. The project studied whether cost savings could be realized in grain transportation by using modern logistical practices to improve efficiencies. The SGCC provided an equity investment to support Phase II of the project which was the implementation phase. In the 2013-14 fiscal year, the Corporation continued its involvement with WCRR.

WCRR's 2013/14 fiscal year began as one of real promise. A record crop production was harvested across the prairies shattering previous records. The quality of the crop, generally speaking, was exceptional, with the majority of production falling into the top two Canadian Grain Commission (CGC) grading categories. Demand was strong which equated to strong pricing for producers. WCRR's pricing was quite competitive relative to its competitors. There was good cause to be optimistic about the year until the effects of the Grain Transportation and Handling System (GTHS) issues became apparent.

WCRR was very conservative in developing its sales program being cautious in not over selling their capacity. The plan was predicated on the historical rail service consistency of prior years. The strategy and methodology of planning was sound, based on logical assumptions. Even so nothing could have prepared WCRR for the GTHS delays and backlogs that occurred.

There were several legitimate factors that certainly contributed to the issues in the GTHS. The crop production was much larger than most industry experts had predicted. The problem was compounded by one of the harshest winters in recent memory that impacted Canada coast to coast as well a large portion of the US. It proved to be a combination that led to a system wide rail transportation failure. Regardless of the reasons, grain shippers, including WCRR, were on the losing end of the rail transportation issues.

For WCRR it meant missed shipping windows and contractual deadlines, which translated into demurrage costs and contract penalties that definitely had an adverse effect on WCRR's bottom-line. Beyond the financial damages it also caused strained business relationships with both producers and buyers. A lot of emphasis was placed on ensuring those strains remained temporary and not on an ongoing long term basis. WCRR did an exceptional job in navigating through an extremely difficult set of circumstances. Constant communication with the railways, buyers and producers, creative risk mitigation and a willingness to exhaust every potential alternative proved invaluable in getting WCRR successfully to the other side of a bad situation.

Overall volume-wise, WCRR had a respectable year. Approximately 330,000 metric tonnes were shipped through the fiscal year. Shipping through the WCRR's loading facilities continued to be the focus, with only nominal attention given to sourcing grain outside of the WCRR facilities catchment areas.

As mentioned in last year's report the expansion at Lucky Lake and Beechy, which included the addition of bin structures and conveyance, was completed in August 2013. The expansion proved to be a valuable addition of assets to WCRR and the producers they serve. It augmented the flow of grain through those facilities, especially in light of the lack of movement experienced and the importance of rapid car turnaround.

WCRR spent increased funds during the fiscal year on maintenance work completed through outside contractors during the slow movement periods. This was done to ensure WCRR had no unnecessary shipping delays related to operational, mechanical or equipment failure during the few fluid shipping periods realized towards the end of the year.

The SGCC will be redeeming the remaining 2,000 Class E shares in WCRR on November 1st, 2014.

Shortline Railway Sustainability Program

The Shortline Railway Sustainability Program (SRSP) provides matching grants to shortline operators to support maintenance and upgrading work on shortline railway track infrastructure in the province. The SRSP operates on a cost-shared basis, with the Province and individual shortlines engaged as equal funding partners. The SGCC funds the program for the Province. The SRSP management is done by the Ministry of Highways and Infrastructure (MHI). In the 2013-14 fiscal year, the SGCC provided \$865,786 in grant payments.

Shortline Railway Sustainability Program Payments

2013-14 (August 2013 - March 2014)	\$	302,061
2013-14 (April - July 2014)	\$	563,725
	\$	<u>865,786</u>

2013 - 14 Financial Overview

In 2013-14, the SGCC collected over \$2.1 Million in revenues, with 98% of the revenues attributed to car leasing revenues. The 2013-14 expenditures totaled \$3.2 Million resulting in a \$1.05 Million deficit for the Corporation. The SGCC realized a positive change to the net financial assets of over \$200,000 with the adjustment for non-financial expenditures.

Revenues

	(in thousands of dollars)				
	2012-13 Actual	2013-14 Budget	2013-14 Actual	Variance	
Car leasing	\$ 2,205	\$ 2,000	\$ 2,088	\$ 88	
Compensation from destroyed cars	\$ 40	\$ 40	\$ 18	\$(22)	
Interest	\$ 52	\$ 28	\$ 29	\$ 2	
Fleet revenue	\$ 557	\$ -	\$ -	-	
Model car royalties	\$ 0	\$ 1	\$ 1	0	
Gain on sale of shares	\$ 44	\$ -	\$ -	-	
Other	\$ 1	\$ 1	\$ 1	0	
Total Revenue	\$ 2,900	\$ 2,069	\$ 2,137	\$ 68	

Expenditures

	(in thousands of dollars)				
	2012-13 Actual	2013-14 Budget	2013-14 Actual	Variance	
Administration	\$ 127	\$ 171	\$ 130	\$(41)	
Amortization	\$ 1,248	\$ 1,240	\$ 1,247	\$ 7	
Destroyed grain cars	\$ 12	\$ 35	\$ 11	\$(24)	
Fleet repair and maintenance	\$ 935	\$ 558	\$ 396	\$(162)	
Grants	\$ 843	\$ 900	\$ 866	\$(34)	
Salaries and benefits	\$ 464	\$ 540	\$ 515	\$(25)	
Travel and sustenance	\$ 38	\$ 48	\$ 28	\$(20)	
	\$ 3,667	\$ 3,491	\$ 3,191	\$(300)	
(Deficit) Surplus for the year	\$ (767)	\$ (1,422)	\$ (1,054)	\$ 368	

Management's Report

The accompanying financial statements have been prepared by management of the Saskatchewan Grain Car Corporation. These financial statements have been prepared in conformity with Canadian public sector accounting standards for other government organizations, consistently applied using management's best estimates and judgment where appropriate. Management is responsible for the reliability and integrity of the Financial Statements and other information contained in the Annual Report.

The integrity of financial records from which these financial statements are prepared is largely dependent on the systems of internal accounting controls. The purpose of such systems is to provide reasonable assurance that transactions are executed in accordance with proper authorization, transactions are appropriately recorded in order to permit preparation of accurate financial statements and assets are properly accounted for and safeguarded against loss from unauthorized use. Underlying this concept of reasonable assurance is the fact that limitations exist in any system of internal accounting controls based on the premise that the cost of such controls should not exceed the benefits derived.

Management believes that the financial statements in this Annual Report present fairly the financial position of the Corporation for the year ending July 31, 2014.

The Board of Directors has fulfilled its responsibility with respect to the financial position of the Corporation by reviewing and approving the financial statements for the year ending July 31, 2014.

The financial statements have been audited by the Corporation's external auditors, Miller Moar Grodecki Krekewich & Chorney, Chartered Accountants, and approved by the Provincial Auditor and the Provincial Comptroller's Division of Saskatchewan Finance.



Robert Mason
Regina, Saskatchewan
October 1, 2014

Independent Auditors' Report

*To the Members of the Legislative Assembly of the
Province of Saskatchewan*

Report on the Consolidated Financial Statements

We have audited the accompanying financial statements of the Saskatchewan Grain Car Corporation, which comprise the statement of financial position as at July 31, 2014 and the statements of operations and net assets, change in net financial assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards for other government organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Saskatchewan Grain Car Corporation as at July 31, 2014 and the results of its operations and net assets, change in net financial assets, and cash flows for the year then ended in accordance with Canadian public sector accounting standards for other government organizations.

MILLER MOAR GRODECKI KREKLEWICH & CHORNEY

Chartered Accountants

Melville, Saskatchewan

October 1, 2014

SASKATCHEWAN GRAIN CAR CORPORATION
STATEMENT OF FINANCIAL POSITION
AS AT JULY 31, 2014

	2014	STATEMENT 1 2013
<u>FINANCIAL ASSETS</u>		
Cash	\$ 39,243	\$ 35,862
Due from General Revenue Fund (Note 4)	2,909,110	3,099,742
Accounts receivable	189,125	183,385
Other investments (Notes 2 & 6)	203,674	203,674
<u>TOTAL FINANCIAL ASSETS</u>	<u>\$ 3,341,152</u>	<u>\$ 3,522,663</u>
 <u>LIABILITIES</u>		
Accounts payable and accrued liabilities	\$ 246,555	\$ 642,727
Goods and services tax payable	13,797	8,382
Provincial sales tax payable	3,367	3,046
Security deposit	68,805	68,805
Accrued Sick Leave	12,752	10,450
Deferred fleet revenue (Note 7)	-	-
<u>TOTAL LIABILITIES</u>	<u>\$ 345,276</u>	<u>\$ 733,410</u>
 <u>NET FINANCIAL ASSETS - STATEMENT 3</u>	<u>\$ 2,995,876</u>	<u>\$ 2,789,253</u>
 <u>NON-FINANCIAL ASSETS</u>		
Tangible capital assets (Notes 2 & 5)	\$ 8,831,210	\$ 10,088,263
Prepaid expense	3,390	7,074
<u>TOTAL NON-FINANCIAL ASSETS</u>	<u>\$ 8,834,600</u>	<u>\$ 10,095,337</u>
 <u>NET ASSETS - STATEMENT 2</u>	<u>\$ 11,830,476</u>	<u>\$ 12,884,590</u>

Approved on behalf of the Board:



Nancy Heppner
Chairperson of the Board

(See Accompanying Notes to Financial Statements)

SASKATCHEWAN GRAIN CAR CORPORATION
STATEMENT OF OPERATIONS AND NET ASSETS
FOR THE YEAR ENDED JULY 31, 2014

	2014 Budget	2014	<u>STATEMENT 2</u> 2013
<u>REVENUES</u>			
Car leasing (Note 3)	\$ 2,000,000	\$ 2,087,804	\$ 2,205,005
Compensation from destroyed cars (Note 3)	40,000	17,769	40,247
Interest (Notes 4 & 8)	27,500	29,328	51,995
Fleet revenue (Note 7)	-	-	557,158
Model car royalties	1,000	1,355	405
Gain on sale of shares (Note 6)	-	-	44,146
Other	500	786	687
<u>TOTAL REVENUES</u>	<u>\$ 2,069,000</u>	<u>\$ 2,137,042</u>	<u>\$ 2,899,643</u>
<u>EXPENSES</u>			
Administration (Schedule 1)	\$ 170,650	\$ 129,598	\$ 127,413
Amortization (Notes 2 & 5)	1,240,000	1,246,463	1,247,503
Destroyed grain cars	34,500	10,590	11,452
Fleet repair and maintenance	558,000	396,314	936,052
Grants (Note 10)	900,000	865,786	843,379
Salaries and benefits (Notes 8 & 9)	540,000	514,587	463,642
Travel and sustenance (Note 8)	48,000	27,818	37,983
<u>TOTAL EXPENSES</u>	<u>\$ 3,491,150</u>	<u>\$ 3,191,156</u>	<u>\$ 3,667,424</u>
<u>(DEFICIT) SURPLUS FOR THE YEAR</u>	<u>\$ (1,422,150)</u>	<u>\$ (1,054,114)</u>	<u>\$ (767,781)</u>
Net assets, beginning of year		12,884,590	17,152,371
Dividends paid to the General Revenue Fund		-	(3,500,000)
<u>NET ASSETS, END OF YEAR</u>		<u>\$ 11,830,476</u>	<u>\$ 12,884,590</u>

(See Accompanying Notes to Financial Statements)

SASKATCHEWAN GRAIN CAR CORPORATION
STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
FOR THE YEAR ENDED JULY 31, 2014

	2014	STATEMENT 3 2013
Deficit for the year	\$ (1,054,114)	\$ (767,781)
Change in non-financial assets		
Tangible capital assets		
Amortization	1,246,463	1,247,503
Destroyed grain cars	10,590	11,452
(Increase) decrease in prepaid expenses	3,684	5,302
Net change in non-financial assets	\$ 1,260,737	\$ 1,264,257
Increase in net financial assets	206,623	496,476
Net financial assets, beginning of year	2,789,253	5,792,777
Dividends paid to the General Revenue Fund	-	(3,500,000)
<u>NET FINANCIAL ASSETS, END OF YEAR</u>	<u>\$ 2,995,876</u>	<u>\$ 2,789,253</u>

(See Accompanying Notes to Financial Statements)

SASKATCHEWAN GRAIN CAR CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JULY 31, 2014

	<u>2014</u>	<u>STATEMENT 4</u> <u>2013</u>
<u>OPERATING ACTIVITIES</u>		
Deficit for the year	\$ (1,054,114)	\$ (767,781)
Non-cash items included in surplus (deficit) for the year:		
Amortization	1,246,463	1,247,503
Gain on disposal of destroyed grain cars	(7,179)	(8,313)
Change in non-cash operating activities:		
(Increase) Decrease in accounts receivable	(5,740)	30,032
(Decrease) Increase in accounts payable and accrued liabilities	(396,172)	426,981
Increase (Decrease) in goods and services tax payable	5,415	(7,333)
Increase (Decrease) in provincial sales tax payable	321	(1,584)
Increase in accrued sick leave	2,302	606
(Decrease) in deferred fleet revenue	-	(552,344)
Decrease in prepaid expenses	3,684	5,302
Cash provided by operating activities	<u>\$ (205,020)</u>	<u>\$ 373,069</u>
<u>CAPITAL ACTIVITIES</u>		
Proceeds from destroyed grain cars	<u>\$ 17,769</u>	<u>\$ 19,765</u>
<u>INVESTING ACTIVITIES</u>		
Sale of shares	<u>\$ -</u>	<u>\$ 203,675</u>
<u>FINANCING ACTIVITIES</u>		
Dividends paid to the General Revenue Fund	<u>\$ -</u>	<u>\$ (3,500,000)</u>
<u>DECREASE IN CASH AND CASH EQUIVALENTS</u>	<u>\$ (187,251)</u>	<u>\$ (2,903,491)</u>
<u>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</u>	<u>3,135,604</u>	<u>6,039,095</u>
<u>CASH AND CASH EQUIVALENTS, END OF YEAR</u>	<u>\$ 2,948,353</u>	<u>\$ 3,135,604</u>
<u>SUMMARY OF CASH AND CASH EQUIVALENTS</u>		
Cash	\$ 39,243	\$ 35,862
Due from General Revenue Fund	2,909,110	3,099,742
	<u>\$ 2,948,353</u>	<u>\$ 3,135,604</u>

(See Accompanying Notes to Financial Statements)

SASKATCHEWAN GRAIN CAR CORPORATION
NOTES TO FINANCIAL STATEMENTS
JULY 31, 2014

1. Status of the Corporation

The Saskatchewan Grain Car Corporation is a Provincial Crown Corporation established on October 2, 1979 by Order-in-Council 1787/79. The Corporation continues under the authority and provisions of *The Saskatchewan Grain Car Corporation Act*.

The Corporation's mission is to maximize the economic benefits to Saskatchewan agriculture as a first priority, other Saskatchewan industries as a second priority, and the Province in general, through the effective and efficient use of its resources.

2. Significant Accounting Policies

The Corporation uses Canadian generally accepted accounting principles as recommended by the Public Sector Accounting Board for other government organizations by the Canadian Institute of Chartered Accountants.

a) Revenues

Revenues from car operating leases are recognized as the services are provided to the lessee and collection is reasonably assured.

b) Tangible Capital Assets

Tangible capital assets are recorded at cost and include all amounts directly attributable to the purchase or the betterment of the grain car fleet. Normal maintenance and repairs are expensed as incurred. Capital assets are amortized on a straight-line basis over their estimated useful life of 40 years.

c) Investments

The investment in the shares of West Central Road & Rail Ltd. are recorded at cost. Dividends from these shares are recorded as revenue when received or receivable.

d) Foreign Currency

The Corporation translates its foreign currency transactions into Canadian dollars by applying the exchange rate in effect on the transaction date. Monetary assets and liabilities are adjusted to reflect the exchange rate in effect at the reporting date. Exchange gains and losses are recognized in the statement of operations in the current period.

e) Measurement Uncertainty

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Where measurement uncertainty exists, the financial statements have been prepared within reasonable limits of materiality. Actual results could differ from these estimates.

3. Commercial Lease Agreements

a) Canadian Pacific Railway (CPR)

The Corporation entered into a Master Agreement date November 25, 2011. The agreement was amended on June 28, 2012, effective August 1, 2012. Significant terms of the lease of the 487 cars are as follows:

A four year lease term of 200 cars expiring August 1, 2015. A three year lease term of 150 cars expiring August 1, 2014. A one year lease term for 137 cars expiring on July 31, 2014.

CPR is responsible for maintaining and repairing the Corporation's hopper cars at their own expense in accordance with Transport Canada, Federal Railway Administration (FRA) and Association of American Railroads (AAR) rules.

In the event that one of the Corporation's cars is damaged beyond economic repair, CPR is required to compensate the Corporation for the value of the car in accordance with Rule 107 of the Interchange Rules Manual of the AAR.

The Master Agreement was amended on July 7, 2014 with an effective date of August 1, 2014.

b) Last Mountain Railway (LMR)

The Corporation entered into a five year lease agreement effective October 3, 2011 for 415 hopper cars. Significant terms of the lease are as follows:

LMR is responsible for maintaining and repairing the Corporation's hopper cars at their own expense in accordance with Transport Canada, Federal Railway Administration (FRA) and Association of American Railroads (AAR) rules.

In the event that one of the Corporation's cars is damaged beyond economic repair, LMR is required to compensate the Corporation for the value of the car in accordance with Rule 107 of the Interchange Rules Manual of the AAR.

In the event that LMR does not enter into a subsequent lease agreement, the hopper cars will be returned at a mutually agreed upon major interchange located within Saskatchewan on LMR trackage.

c) Canadian National Railway Company (CN)

The Corporation extended the existing Operating Agreement with CN for any hopper cars in the control of the CN during the period of transfer to LMR. The Operating Agreement allows the CN to lease the cars free of charge for the movement of grain. As of August 1, 2012, any hopper cars remaining with the CN will be charged on a daily basis as specified in the turnback provisions. The CN turned back all of the hopper cars as of December 31, 2013.

The CN is responsible for maintaining and repairing the Corporation's hopper cars at their own expense in accordance with Transport Canada, Federal Railway Administration (FRA) and Association of American Railroads (AAR) rules.

In the event that one of the Corporation's cars is damaged beyond economic repair, the CN is required to compensate the Corporation for the value of the car in accordance with Rule 107 of the Interchange Rules Manual of the AAR.

4. Due From General Revenue Fund

Most of the Corporation's bank accounts are included in the Consolidated Offset Bank Concentration (COBC) arrangement for the Government of Saskatchewan. The Corporation's earned interest is calculated and paid by the General Revenue Fund on a quarterly basis into the Corporation's bank account using the Government's thirty day borrowing rate and the Corporation's average daily bank balance. The Government's average thirty day borrowing rate for 2014 was 0.98% (2013 - 1.09%).

5. Rolling Stock

	Cost	Accumulated Amortization	Book Value
Balance, beginning of year	\$ 49,881,809	\$ 39,793,546	\$ 10,088,263
Destroyed cars	(55,861)	(45,271)	(10,590)
	49,825,948	39,748,275	10,077,673
Current amortization - 2.5%	Nil	1,246,463	1,246,463
Balance, end of year	<u>\$ 49,825,948</u>	<u>\$ 40,994,738</u>	<u>\$ 8,831,210</u>

6. Investment in Shares of West Central Road & Rail Ltd.

The Corporation owns 2,000 Class "E" shares of West Central Road & Rail Ltd. The shares are transferable, non-voting except for the entitlement to elect 2 of 13 directors and participate equally in dividends and the distribution of assets on liquidation or wind-up. As per the Agreement, the Corporation redeemed on May 31, 2013 2,000 shares at their fair market value. The Corporation has also requested to redeem the remaining 2,000 shares on November 1, 2014.

7. Deferred Fleet Revenue and Restricted Funds

The prior lease agreements with CNR required the compensation for destroyed cars to be recorded as deferred fleet revenue to be used for future purchase, upgrades and repairs and maintenance. Effective August 1, 2012 this is no longer required as CNR is to turn all of the hopper cars in their control over to LMR.

a) Deferred Fleet Revenue

	2014	2013
Balance, beginning of year	\$ -	\$ 552,344
Interest allocated (Notes 2, 4 & 8)	-	4,814
Lease turnback settlement	-	-
Fleet repairs and maintenance	-	(557,158)
	<u>\$ -</u>	<u>\$ -</u>

b) Restricted Funds

	2014	2013
Cash	<u>\$ -</u>	<u>\$ -</u>

8. Related Party Transactions

The Corporation is related to all Saskatchewan Crown Agencies under the common control of the Government of Saskatchewan and all non-crown enterprises that the Government jointly controls or significantly influences.

Operating transactions with related parties are recorded at the rate charged by those organizations and are settled on normal trade terms. These transactions are as follows:

	2014	2013
<u>Revenues</u>		
Government of Saskatchewan		
General Revenue Fund Interest - deferred fleet revenue	\$ -	\$ 4,814
General Revenue Fund Interest	\$ 29,328	\$ 51,995
Ministry of Government Services		
Rent of office space	\$ 56,292	\$ 52,622
Printing and copying	\$ 457	\$ 550
Consulting services	\$ 2,868	\$ 100
Central vehicle agency	\$ 8,951	\$ 12,979
Computer maintenance	\$ 10,770	\$ 9,477
Telecommunications	\$ 228	\$ 785
Office renovation	\$ 8,863	\$ -
Miscellaneous	\$ 315	\$ -
Saskatchewan Telecommunications		
Telecommunications	\$ 3,884	\$ 4,339
Workers' Compensation Board (Saskatchewan)		
Salaries and benefits	\$ 2,438	\$ 2,097
Saskatchewan Archives Board		
Administration	\$ 60	\$ -

9. Pension Plan

The Corporation participates in a defined contribution pension plan for the benefit of its employees. The Corporation's financial obligation to the Capital Pension Plan (a related party) is limited to making regular payments to match the amounts contributed by employees for current service. The pension expense included in salaries and benefits for 2014 was \$30,489 (2013 - \$28,425).

10. Shortline Railway Sustainability Program (SRSP)

The SRSP provides cost shared grants to shortline operators to support maintenance and upgrading work on shortline railway track infrastructure in the Province of Saskatchewan.

SASKATCHEWAN GRAIN CAR CORPORATION
SCHEDULE OF ADMINISTRATION EXPENSES
FOR THE YEAR ENDED JULY 31, 2013

	2014		2014	<u>SCHEDULE 1</u>
	<u>Budget</u>			<u>2013</u>
Advertising and promotion	\$ 5,000	\$	1,164	\$ 1,000
Bank charges	150		144	130
Computer maintenance (Note 8)	12,000		10,770	9,477
Computer software	2,000		1,049	819
Conferences and professional development	26,000		2,437	10,826
Consulting services (Note 8)	25,000		20,326	22,030
Memberships and subscriptions	10,000		8,459	7,745
Miscellaneous (Note 8)	2,000		1,396	1,137
Office equipment and supplies	2,500		8,136	926
Printing, copying, postage and courier (Note 8)	5,500		3,743	4,143
Professional services	15,000		8,715	8,558
Rent - office space (Note 8)	60,000		59,192	55,462
Telecommunications (Note 8)	5,500		4,067	5,160
<u>TOTAL EXPENSES TO STATEMENT 2</u>	<u>\$ 170,650</u>	<u>\$</u>	<u>129,598</u>	<u>\$ 127,413</u>

Statistical Summary

As of July 31, 2014

Year	Total Cars			Destroyed Cars			Leasing Revenues
	SKNX	SKPX/CP	Total	SKNX	SKPX/CP	Total	
1979/80	-	-	-	-	-	-	-
1980/81	477	273	750	-	-	-	-
1981/82	477	523	1,000	-	-	-	\$56,294
1982/83	477	523	1,000	-	-	-	\$11,850
1983/84	475	523	998	2	-	2	-
1984/85	475	523	998	-	-	-	-
1985/86	475	523	998	-	-	-	-
1986/87	474	523	997	1	-	1	-
1987/88	474	523	997	-	-	-	-
1988/89	474	523	997	-	-	-	\$1,099,441
1989/90	474	523	997	-	-	-	\$92,310
1990/91	474	523	997	1	-	1	\$146,343
1991/92	473	522	995	-	1	1	\$268,342
1992/93	473	522	995	-	-	-	\$326,047
1993/94	472	522	994	1	-	1	\$816,083
1994/95	472	518	990	-	4	4	\$628,807
1995/96	470	514	984	2	4	6	\$946,233
1996/97	468	514	982	2	-	2	\$991,526
1997/98	468	509	977	-	5	5	\$1,089,116
1998/99	468	509	977	-	-	-	\$1,305,593
1999/00	464	508	972	4	1	5	\$1,189,104
2000/01	458	498	956	6	10	16	\$1,304,835
2001/02	455	498	953	3	-	3	\$1,033,158
2002/03	454	497	951	1	1	2	\$1,315,865
2003/04	442	497	939	12	-	12	\$1,766,041
2004/05	440	494	934	2	3	5	\$1,543,736
2005/06	434	494	928	6	-	6	\$1,064,115
2006/07	429	493	922	5	1	6	\$1,629,790
2007/08	424	491	915	5	2	7	\$1,864,169
2008/09	419	491	910	5	-	5	\$1,093,967
2009/10	417	490	907	2	1	3	\$1,244,944
2010/11	416	488	904	1	2	3	\$1,470,636
2011/12	416	488	904	0	0	0	\$1,883,919
2012/13	415	488	903	1	0	1	\$2,205,005
2013/14	415	487	902	0	1	1	\$2,087,804
Total	415	487	902	62	36	98	\$30,406,929

(See note 1)

(See note 2)

SKNX marked hopper cars were leased to Canadian National Railway (CN) from 1980/81 until 2010/11 inclusive. From 2011/12 to 2013/14, hopper cars were leased to Last Mountain Railway (LMR) and CN, as cars were turn backed from lease with CN. As of July 31, 2014, all SKNX marked cars are leased to LMR.

SKPX/CP marked hopper cars are leased to Canadian Pacific Railway (CPR).

Notes to Statistical Summary

1. Revenue adjustments for 1997/98 fiscal year

Car leasing revenue recognized as per 1997/98 Financial Statement	\$ 1,507,271
- Bad debt allowance as shown in 1997/98 Financial Statement	(\$ 160,000)
- Bad debt allowance as shown in 1998/99 Financial Statement	(\$ 53,543)
- Settlement recovery with CP for western Canada commercial moves from 1991 to 1997 realized in 1998/99	(\$ 204,612)
Car leasing revenue actually realized in 1997/98	\$ 1,089,116

2. Revenue adjustments for 1999/00 fiscal year

Car leasing revenue recognized as per 1999/00 Financial Statement	1,639,104
- Settlement recovery with CN for western Canada commercial moves form 1991 to 1997 realized in 1999/00	(\$ 450,000)
Car leasing revenue actually realized in 1999/00	\$ 1,189,104

Corporate Information

DEFINITIONS

Gross Weight

Total of weight of car, net load, and dunnage.

Light Weight (LT WT)

Weight of empty railroad car expressed in pounds. This figure is stenciled on the car. Also referred to as Tare Weight.

Load Limit (LD LMT)

Absolute maximum allowable weight of load, including both net weight and dunnage, that a freight car is authorized to carry. This figure is stenciled on the car.

Metric tonne

A metric tonne equals 2,204.6 pounds or 1000 kilograms, and is 10 percent larger than a 2000 pound short ton.

For additional information:

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