



Saskatchewan Opportunities Corporation

2004 First Quarter Report



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## Report From the President

The First Quarter of 2004 has yielded many successes for Saskatchewan Opportunities Corporation (SOCO). The issues surrounding the long-term governance structure for the Corporation were resolved; reporting lines were simplified; and operating performance has exceeded projections.

SOCO's financial arrangements with the General Revenue Fund (GRF) were restructured through the transfer of capital assets to the GRF as payment for debt owing to the Fund. This transfer, effective April 1, 2004, allows SOCO to operate profitably without any annual grant from the Government of Saskatchewan. The profits generated from operations will create a pool of capital available for future development projects vital to the ongoing growth of Innovation Place and the Regina Research Park.

The reorganization has resulted in a more streamlined reporting structure for SOCO as well. In the past, SOCO reported to both the board of Crown Investments Corporation (CIC) and to Treasury Board. Discontinuing the annual grant from Treasury Board will mean a single reporting line to Government through the Crown Investments Corporation Board.

Strategic Planning for 2004 was completed during the first quarter. The employee driven process resulted in many new initiatives to be implemented this year aimed at increasing productivity and profitability. 2004 will be the first year SOCO has implemented a plan that included all staff in the corporate planning process.

The result of this planning process has already contributed to enhanced performance. Revenue is higher and operating expenses are lower than budgeted. Progress has been made in meeting Balance Scorecard targets, and we have been particularly successful at enhancing recycling programs and energy saving initiatives. Our first quarter shows reason for optimism for 2004.



Douglas Tastad  
President and CEO

## **Corporate Plan**

Saskatchewan Opportunities Corporation (the “Corporation”) was established as a Crown Corporation in 1994. As such, the Corporation takes its strategic direction from Crown Investments Corporation of Saskatchewan (CIC), the holding company for provincial Crown corporations, whose board of directors are elected Cabinet Ministers.

In 1999, CIC developed a Crown Sector Strategic Plan (the plan) to assist all Crown corporations in developing their own strategic plans. CIC has since refined the plan and its four balanced score card perspectives have been integrated into the Corporation’s Corporate Plan and operations. The Corporation’s 2004 balanced score card perspectives are entitled economic development, stakeholder satisfaction, financial performance, and community leadership.

### **Mission**

*To support the growth and success of the Saskatchewan technology sector through the development and operation of research parks.*

### **Vision**

*Saskatchewan’s research parks will be the best in the world.*

### **Values**

*Excellence: The pursuit of excellence in design, operations and administration.*

*Innovation: Innovation in all our business activities.*

*Collaboration: Open and accountable in all our partnerships.*

### **Goals**

#### **Economic Development**

- Grow Saskatchewan’s technology Sector

#### **Stakeholder Satisfaction**

- Ensure employees, clients, ownership and all external stakeholders view their relationship with the Corporation as positive

#### **Financial Performance**

- Build a sustainable financial structure that allows for the growth of the research parks

#### **Community Leadership**

- Lead on environmental issues
- Enhance the reputation of the Province
- Build a knowledgeable and representative workforce

## **Management Discussion and Analysis**

The following management discussion and analysis for the Saskatchewan Opportunities Corporation (the "Corporation") should be read in conjunction with the unaudited interim financial statements and notes to those statements for the three months ended March 31, 2004. What follows will provide the context within which the Corporation's unaudited interim financial statements should be analyzed.

### **Corporate Overview**

The Corporation is a Crown corporation with a direct reporting relationship to the Crown Investments Corporation of Saskatchewan. The corporate mission is to support the growth and success of Saskatchewan's technology sector through the development and operation of research parks.

The Corporation leases high quality space and services to tenants at Saskatchewan's two Research Parks, Innovation Place adjacent to the University of Saskatchewan and Regina Research Park adjacent to the University of Regina. The intention is that tenants will have the capability and opportunity to share information with others resulting in synergies (clusters) and innovation. The Corporation also operates the Bio Processing Center which supports the bio-products industry by providing custom processing on a contract basis for nutraceutical, cosmetic and agri-food industries.

### **Business Highlights**

#### New Governance Structure

During the 2004-05 budget process, the Corporation received formal direction from the Saskatchewan Government regarding the future structure of the Corporation. The Corporation will remain a Crown corporation with a direct reporting relationship to the Crown Investments Corporation of Saskatchewan. As of April 1, 2004, the Corporation's capital assets will be transferred to the General Revenue Fund and the Corporation's debt will also be assumed by the General Revenue Fund. The assets will be held by Industry and Resources. As such, the Corporation will no longer be required to make interest payments and will no longer receive an annual allocation from the General Revenue Fund.

The Corporation is developing a management agreement with Industry and Resources to manage the research park assets that will be transferred. All future assets constructed/purchased will remain the property of the Corporation.

#### Saskatchewan Forest Centre

Construction of the Saskatchewan Forest Centre Building, which was started in 2003, continued in the first quarter of 2004. Currently, this project is on budget and is scheduled for occupancy in early 2005.

## **Financial Performance**

### **Financial Results**

The Corporation's 2004 first quarter financial results, excluding the operating contribution from the General Revenue Fund (GRF), represent improved results compared to March 31, 2003.

The March 31, 2004 rental and development revenue exceeds the March 31, 2003 revenue by \$784,000. Approximately \$274,000 relates to increased revenue from the Bio Processing Center. An additional \$500,000 relates to increased rental revenue at Regina Research Park partly due to the purchase of two buildings in the fall of 2003 and partly due to increasing occupancy as compared to the first quarter of 2003.

The Operating Contribution from the General Revenue Fund for the first quarter of 2004 was \$571,000 more than the same time period last year due to the approved increase in the Corporation's allocation.

Rental and development expenses increased by \$155,000 compared to March 31, 2003. This increase is reflective of the increased activity in the Bio Processing Centre and the Regina Research Park during the first quarter of 2004.

The Corporation saw its research parks capital asset base at March 31, 2004 grow by over \$10 million from March 31, 2003. The majority of this increase was due to the purchase of 1 and 2 Research Drive from the University of Regina in October 2003. In addition, construction began on the Saskatchewan Forest Centre Building in Prince Albert during 2003. The Corporation acquired an additional \$10 million in debt in the form of notes payable to the GRF in October 2003 to fund these capital additions.

### **Risks and Uncertainties**

The main risks facing the corporation fall into two general categories:

#### Rental Property Vacancy Risk

Vacancy risk is inherent in the property management business. The operating results of the research parks depend to a large extent on the level of occupancy achieved. Therefore, a critical risk factor related to research parks is failing to replace tenants as they leave.

Directly related to rental property vacancy risk is clients' industry risk. This is the risk inherent in the industry in which a client operates. A downturn in a particular sector of the economy can have an impact on research park financial results after some "lag" time. This risk is further exacerbated by the cluster strategy inherent in Research Parks whereby clients in the same sector are encouraged to locate in the park to gain synergies. Recent downturns in the agriculture and telecommunications/internet sectors have impacted research parks results.

Given the historically high occupancy rates and the current leases at Innovation Place and the Regina Research Park, management does not consider vacancy to be a significant risk for the foreseeable future.

Related to vacancy risk is the issue of being able to accommodate tenant growth. When a tenant's business is successful and growing, research parks need to ensure space is available to accommodate that growth. The alternative is when tenants need to expand and the parks have no space available, the tenants will be forced to leave the parks.

### Access to Capital for Future Projects

The Corporation's mission to support the growth and success of the Saskatchewan technology sector through the development and operation of research parks is dependant on access to adequate capital. The Corporation can only affect growth of the technology sector through the growth of the research parks and this growth must be financed through capital. The new capital structure of the Corporation now requires the establishment of a process to access capital for future development that allows for sustainable growth and development of new research park assets.

### **Outlook**

In an effort to meet the demand of space at the Regina Research Park, the Corporation will plan to pursue the approval of another building during 2004.

In an effort to complete the Saskatchewan Forest Center Building, Corporation's management is expecting to borrow up to approximately \$2,000,000 by year end. Management expects the Corporation will repay the debt out of 2005 operating cash flows.

### **Significant Transactions**

The Corporation is required to report significant transactions to the Standing Committee on Crown and Central Agencies. This committee consists of seven government and opposition members of the Legislative Assembly. The Committee considers matters relating to the Crown Investments Corporation of Saskatchewan and its subsidiaries, supply and services, central agencies, and all other revenue related agencies and entities. The Corporation does not have any significant transactions to report that took place in the first quarter of 2004.

On April 1, 2004, the majority of the corporation's property, plant and equipment was transferred to the General Revenue Fund. In return, all of the Corporation's debt was assumed by the General Revenue Fund.

## Management's Responsibility for Financial Statements

The accompanying unaudited interim financial statements of the Saskatchewan Opportunities Corporation have been prepared by corporate management in accordance with Canadian generally accepted accounting principles and necessarily include amounts based on informed judgment and management estimates. Financial information presented elsewhere in this quarterly report is consistent with that in the financial statements.

Ensuring the integrity and objectivity of financial information is an integral part of management's responsibility to the ongoing operation. Management maintains an appropriate system of internal controls, policies and procedures to provide reasonable assurance that all financial transactions are recorded on a timely basis with proper approvals and result in reliable financial statements.

The interim Board of Directors has reviewed and approved these unaudited interim financial statements. The entire interim Board acts as an audit and finance committee and meets periodically with management.

On behalf of management,



Douglas Tastad  
President & Chief Executive Officer



Glenda Bruce  
Chief Financial Officer

**STATEMENT OF FINANCIAL POSITION - Unaudited**  
AS AT MARCH 31

	<b>2004</b>	<b>2003</b>
	(000s)	(000s)
<b>ASSETS</b>		
Cash	\$ 2,166	\$ 2,900
Accounts Receivable and Prepaid Expenses	3,027	3,862
Property, Plant and Equipment	154,039	141,522
	<b>\$ 159,232</b>	<b>\$ 148,284</b>
<b>LIABILITIES AND EQUITY</b>		
Accounts Payable and Accrued Liabilities	\$ 5,271	\$ 3,840
Deferred Revenue	4,000	1,500
Notes Payable	26,968	15,800
Long-Term Debt	125,012	126,176
	<b>161,251</b>	<b>147,316</b>
Province of Saskatchewan's Equity (Deficit)		
Retained Earnings (Deficit)	(2,019)	968
	<b>\$ 159,232</b>	<b>\$ 148,284</b>

**STATEMENT OF OPERATIONS AND RETAINED EARNINGS (DEFICIT) - Unaudited**  
 FOR THE THREE MONTHS ENDED MARCH 31

	<b>2004</b>	<b>2003</b>
	(000s)	(000s)
<b>REVENUE</b>		
Rental and Development Income	\$ 5,358	\$ 4,574
Operating Contribution - General Revenue Fund	<b>1,803</b>	1,232
	<b>7,161</b>	5,806
<b>EXPENSES</b>		
Operating and Administration	611	553
Interest	<b>1,849</b>	1,882
Rental and Development	<b>2,967</b>	2,812
Amortization	<b>1,109</b>	1,046
Restructuring	-	78
	<b>6,536</b>	6,293
<b>Net Income (Loss)</b>	<b>625</b>	(565)
Retained Earnings (Deficit), Beginning of Period	<b>(2,644)</b>	1,533
Retained Earnings (Deficit), End of Period	<b>\$ (2,019)</b>	\$ 968

**STATEMENT OF CASH FLOWS - Unaudited**  
FOR THE THREE MONTHS ENDED MARCH 31

	<b>2004</b>	<b>2003</b>
	(000s)	(000s)
<b>OPERATING ACTIVITIES</b>		
Net Income (Loss)	\$ 625	\$ (565)
Add non-cash item:		
Amortization	1,109	1,046
Change in non-cash operating items:		
Decrease in Accounts Receivable and Prepaid Expenses	200	779
Increase (Decrease) in Accounts Payable and Accrued Liabilities	1,105	(85)
Cash Provided by Operating Activities	<u>3,039</u>	<u>1,175</u>
<b>INVESTING ACTIVITIES</b>		
Decrease in Accounts Payable for Capital	(788)	(312)
Investment in Property, Plant and Equipment	(3,507)	(1,023)
Cash Used in Investing Activities	<u>(4,295)</u>	<u>(1,335)</u>
<b>FINANCING ACTIVITIES</b>		
Net Change in Notes Payable	1,168	-
Non-repayable Contributions for Capital	-	1,500
Net Change in Long-Term Debt	(387)	(293)
Cash Provided by Financing Activities	<u>781</u>	<u>1,207</u>
(Decrease) increase in Cash Position for the Period	(475)	1,047
Cash, Beginning of Period	2,641	1,853
Cash, End of Period	<u>\$ 2,166</u>	<u>\$ 2,900</u>

**Supplementary Information:**

Interest Paid on Notes Payable and Long-Term Debt	\$ 707	\$ 813
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## **NOTES TO FINANCIAL STATEMENTS**

MARCH 31

Saskatchewan Opportunities Corporation (the "Corporation") was incorporated under *The Saskatchewan Opportunities Corporation Act*, which was proclaimed and came into force on August 15, 1994. The Corporation is an agent of Her Majesty in Right of the Province of Saskatchewan and as a provincial Crown corporation is subject to neither federal nor provincial income tax. The financial results of the Corporation are included in the consolidated financial statements of Crown Investments Corporation of Saskatchewan (CIC).

On March 27, 2002, the Minister of Finance for the Province of Saskatchewan, through release of the 2002-03 fiscal budget, announced the Province's intention to wind down the operations of the Corporation. At that time, it was announced that the Corporation's Investment Division would be transferred to CIC Industrial Interests Inc. (CIC III), a wholly owned subsidiary of CIC. This transfer is accounted for as Discontinued Operations and was disclosed in note 5 to the Corporation's December 31, 2003 annual financial statements.

On March 31, 2004, the Minister of Finance for the Province of Saskatchewan, through release of the 2004-05 Provincial budget, announced the Province's intention with respect to the remaining Research Parks Division of the Corporation. The Corporation will remain a Crown corporation with a direct reporting relationship to the Crown Investments Corporation of Saskatchewan. This transfer is described in Note 2 Subsequent Events.

The Corporation's mandate is to facilitate economic growth in Saskatchewan by investing in research parks that support the development of business.

### **1. ACCOUNTING POLICIES**

These unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are consistent with those used and described in the 2003 annual financial statements.

### **2. SUBSEQUENT EVENTS**

On April 1, 2004, the majority of the corporation's property, plant and equipment was transferred to the General Revenue Fund. In return, all of the Corporation's debt was assumed by the General Revenue Fund. Accordingly, the Corporation will no longer be required to make interest payments and will no longer receive an annual allocation from the General Revenue Fund.

The Corporation is developing a management agreement with Industry and Resources to manage the research park assets. All future assets constructed/purchased will remain the property of the Corporation.

This transaction is a subsequent event for which the March 31, 2004 financial statements have not been adjusted.

### **3. COMPARATIVE FIGURES**

Certain amounts for the comparative period have been reclassified to conform with current period financial statement presentation.

## Corporate Information

### Interim Board of Directors

**Blair Swystun, Chairman**

Acting Chief Financial Officer  
Crown Investments Corporation of Saskatchewan  
Regina, SK

**Kathy Buitenhuis**

Acting Senior Vice President  
Crown Investments Corporation of Saskatchewan  
Regina, SK

**Glen Veikle**

Assistant Deputy Minister  
Department of Finance  
Regina, SK

### Senior Management

**Douglas Tastad**, President and Chief Executive Officer

**Glenda Bruce**, Vice-President and Chief Financial Officer

**Ken Loeppky**, General Manager, Regina Research Park

**Charlene Callander**, Executive Director, Accounting & Administration

**Austin Beggs**, Director, Marketing and Corporate Development

**Rob Trimble**, Director, Client Services

**Lorne Vinish**, Director, Business Services

**Gregg Willie**, Manager, Bio Processing Center

**Murray Guy**, Project Manager

**Audrey Dreaver**, Executive Assistant to the President

## Contact Information

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SASKATCHEWAN OPPORTUNITIES CORPORATION