

SASKATCHEWAN  
OPPORTUNITIES  
CORPORATION  
THIRD  
QUARTER  
REPORT  
2009



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# MANAGEMENT DISCUSSION AND ANALYSIS

## Introduction

The following management discussion and analysis should be read in conjunction with the Corporation's unaudited interim financial statements and notes to those statements for the nine months ended September 30, 2009. What follows will provide the context within which the Corporation's unaudited interim financial statements should be analyzed. The Board of Directors for Saskatchewan Opportunities Corporation have approved these interim financial statements. For additional information relative to its operations and financial position, refer to the Corporation's Annual Report for the year ended December 31, 2008.

## Forward Looking Information

This discussion includes forward looking statements about the corporate direction and financial objectives of the Corporation. Due to the risks and uncertainties inherent in any forecast, the actual results could differ materially from those anticipated.

## Corporate Overview

SOCO is a Saskatchewan Crown Corporation with a direct reporting relationship to the Minister Responsible for Saskatchewan Opportunities Corporation. SOCO operates under the business name Innovation Place. The corporate mission is to support the growth and success of Saskatchewan's technology sector. Innovation Place fulfills this mission through the development and operations of research parks on the campuses of the Province's two universities in Saskatoon and Regina as well as a forest sector building in downtown Prince Albert.

## **Core Business**

Innovation Place designs and constructs specialized buildings primarily for technology companies. Revenue is generated from leasing space in these buildings to a wide range of tenants that support each other's success. A typical lease arrangement would include a five year term with fixed revenue, adjusted annually for any increase in operating costs. Typical vacancy within buildings is approximately five percent.

Innovation Place provides its clients with a superior working environment that contributes directly to their productivity. The quality of the environment is not only intended to enhance operating efficiency and tenant innovation but to assist tenants in employee recruitment and corporate marketing.

A diverse mix of research and service tenants, a dynamic social atmosphere and high quality facilities work together to create a community that encourages interaction, collaboration and growth. Tenant diversity is achieved by bringing together private and public, large and small, local and international organizations. Collaborations resulting from this tenant mix, together with access to specialized services and facilities not available elsewhere, bring value to Innovation Place tenants. An appropriate tenant mix is ensured by the approval process prospective tenants must go through. The Regina and Saskatoon parks each have an independent committee comprised of representatives from the local business community, university and municipal government; these committees review and approve all tenants that locate within the park facilities.

Major categories of operating costs include utilities, grants-in-lieu of taxes, building and grounds maintenance and corporate administration. In general, both revenue and expenses are not subject to rapid change. Profitability is tightly linked to local real estate market conditions. The greatest opportunities for increased revenue are from the development of new buildings and increases in rental rates.

## **Bio Processing Centre**

Innovation Place operates the Bio Processing Centre, a contract processing centre in Saskatoon. It extracts high value compounds from plant material, primarily for cosmetic and specialized food purposes. Since 2000, approximately 20 Saskatchewan companies have used the Bio Processing Centre for their processing requirements as have a similar number from outside the province.

# OPERATIONAL HIGHLIGHTS

	As at September 30, 2009	2009 Target
Employment growth within the parks	341	530
Vacancy	5.05%	3.7%

## Employment growth within the parks

The current increase is mainly attributed to clients occupying the newest building in Regina, 2 Research Drive. The 2009 target includes a significant number of employees occupying space in Regina in the fourth quarter. However, due to delays in construction, those employees won't occupy the space until 2010. As such, it is unlikely the target will be met at year end.

## Vacancy

Demand levels remain high for space in Regina and Saskatoon. It is anticipated most of the office space will be leased during the year and clients will continue to be targeted for the specialty space.

# FINANCIAL RESULTS

(in thousands \$)

	Three Months Ended September 30			Nine Months Ended September 30		
	2009	2008	Change	2009	2008	Change
Net income	\$ 1,261	\$ 1,635	\$ (374)	\$ 3,765	\$ 4,042	\$ (277)
Operating cash flow	1,836	2,093	(257)	5,427	5,290	137

## Revenue

(in thousands \$)

	Three Months Ended September 30			Nine Months Ended September 30		
	2009	2008	Change	2009	2008	Change
Rental	\$ 7,668	\$ 6,863	\$ 805	\$ 22,985	\$ 19,550	\$ 3,435
Bio processing	174	695	(521)	565	1,879	(1,314)
Interest	12	90	(78)	59	290	(231)
Other	103	100	3	260	272	(12)
<b>Total Revenue</b>	<b>\$ 7,957</b>	<b>\$ 7,748</b>	<b>\$ 209</b>	<b>\$ 23,869</b>	<b>\$ 21,991</b>	<b>\$ 1,878</b>

## Rental Revenue

The 2 Research Drive redevelopment project in Regina was completed effective April 1, 2009 resulting in increased revenue of \$374,000 for the three month period ending September 30, 2009, and \$758,000 for the nine month period ending September 30, 2009. The Corporation's newest building in Saskatoon, 121 Research Drive, was transferred to rental assets effective April 1, 2008 and fully leased mid-way through 2008. The net impact is an increase in revenue of \$13,000 for the three month period ended September 30, 2009 and \$999,000 for the nine month period ended September 30, 2009. The remaining increase in rental revenue is due to decreased vacancy in the parks and increased recovery revenue associated with increased rental operations expenses.

## Bio Processing Centre Revenue

The economic situation in Central Canada and the United States has contributed to decreased processing activity resulting in decreased revenue of \$521,000 for the three month period ended September 30, 2009 and \$1,314,000 for the nine month period ended September 30, 2009.

## Expenses

(in thousands \$)

	Three Months Ended September 30			Nine Months Ended September 30		
	2009	2008	Change	2009	2008	Change
Administration	\$ 1,263	\$ 1,006	\$ 257	\$ 3,460	\$ 3,240	\$ 220
Rental operations	4,109	3,768	341	12,692	11,183	1,509
Bio processing operations	457	564	(107)	1,415	1,715	(300)
Interest	292	317	(25)	875	563	312
Amortization	575	458	117	1,663	1,248	415
<b>Total Expenses</b>	<b>\$ 6,696</b>	<b>\$ 6,113</b>	<b>\$ 583</b>	<b>\$ 20,105</b>	<b>\$ 17,949</b>	<b>\$ 2,156</b>

### Administration

Increased administration expenses is the result of increased salary costs due to general salary increases and the filling of positions that were vacant for part of 2008.

### Rental Operations

Increased expenses related to the completion of 2 Research Drive and increased occupancy in 121 Research Drive totalled \$70,000 for the three month period ended September 30, 2009 and \$669,000 for the nine month period ended September 30, 2009.

The remaining increase is the result of general cost increases.

### Bio Processing Operations

The decrease in Bio Processing operations is the result of decreased processing activity in the plant.

### **Interest**

The increase in interest expense is the result of the conversion of \$23,684,000 of short term debt to long term debt in July 2008.

### **Amortization**

The increase in amortization expense is due primarily to the completion of 121 Research Drive in 2008 and 2 Research Drive in 2009.

## **Capital Expenditures**

Capital expenditures for the first nine months of 2009 totalled \$5,288,000, with the majority of this total being related to the construction of 2 Research Drive in Regina and various tenant improvement projects.

## **Notes Payable**

During the first nine months of 2009, the Corporation borrowed \$6,000,000 of short term debt through the Saskatchewan Ministry of Finance. The financing is for the construction of 2 Research Drive in Regina. Upon completion of the new buildings, the short term debt is repaid through a combination of long term debt and cash flow from operations.

# OUTLOOK

Forecasted net income for 2009 is expected to be \$4,778,000, a \$298,000 decrease from 2008 mainly due to unfavourable Bio Processing Centre results for the year. The reduction in processing activity in 2009 is also the primary factor in the forecasted decrease in net income of \$229,000 when compared to the original budget of \$5,007,000.

Total capital expenditures for 2009 are forecasted to be \$9,017,000 representing a \$6,051,000 decrease from the 2009 budget of \$15,068,000 due to the delay in commencement of new projects.

# 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 Board of Directors has reviewed and approved these unaudited interim financial statements.

On behalf of management,



**Douglas Tastad**  
President and Chief Executive Officer



**Charlene Callander, CA**  
Vice President and Chief Financial Officer

# FINANCIAL REPORT

## Consolidated Statement of Financial Position

UNAUDITED (in thousands \$)

	September 30, 2009	September 30, 2008
<b>ASSETS</b>		
Cash and cash equivalents	\$ 9,665	\$ 10,208
Accounts receivable	3,547	3,804
Prepaid expenses	1,198	932
Sinking fund	237	-
Property, plant and equipment	55,211	48,358
	<b>\$ 69,858</b>	<b>\$ 63,302</b>
<b>LIABILITIES AND PROVINCE'S EQUITY</b>		
Accounts payable and accrued liabilities	\$ 2,483	\$ 4,447
Deferred revenue	678	496
Notes payable	16,400	12,860
Long term debt	23,684	23,684
	43,245	41,487
Province of Saskatchewan's Equity		
Retained earnings	26,613	21,815
	<b>\$ 69,858</b>	<b>\$ 63,302</b>

(see accompanying notes)

## Consolidated Statement of Operations and Comprehensive Income

UNAUDITED (in thousands \$)

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
<b>REVENUE</b>				
Rental	\$ 7,668	\$ 6,863	\$ 22,985	\$ 19,550
Bio processing	174	695	565	1,879
Interest	12	90	59	290
Other	103	100	260	272
	<u>7,957</u>	<u>7,748</u>	<u>23,869</u>	<u>21,991</u>
<b>EXPENSES</b>				
Administration	1,263	1,006	3,460	3,240
Rental operations	4,109	3,768	12,692	11,183
Bio processing operations	457	564	1,415	1,715
Interest	292	317	875	563
Amortization	575	458	1,663	1,248
	<u>6,696</u>	<u>6,113</u>	<u>20,105</u>	<u>17,949</u>
<b>NET INCOME</b>	<u>1,261</u>	<u>1,635</u>	<u>3,764</u>	<u>4,042</u>
Other comprehensive income	-	-	-	-
<b>COMPREHENSIVE INCOME</b>	<u>\$ 1,261</u>	<u>\$ 1,635</u>	<u>\$ 3,764</u>	<u>\$ 4,042</u>

## Consolidated Statement of Retained Earnings

UNAUDITED (in thousands \$)

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Retained earnings, beginning of period	\$ 25,352	\$ 20,180	\$ 22,849	\$ 17,773
Net income	1,261	1,635	3,764	4,042
Retained earnings, end of period	<u>\$ 26,613</u>	<u>\$ 21,815</u>	<u>\$ 26,613</u>	<u>\$ 21,815</u>

(see accompanying notes)

# Consolidated Statement of Cash Flows

UNAUDITED (in thousands \$)

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
<b>OPERATING ACTIVITIES</b>				
Net income	\$ 1,261	\$ 1,635	\$ 3,764	\$ 4,042
Add non cash item:				
Amortization	575	458	1,663	1,248
	1,836	2,093	5,427	5,290
Change in non cash operating items:				
Accounts receivable	212	(445)	1,102	(387)
Prepaid expenses	746	661	(832)	(730)
Accounts payable and accrued liabilities	(403)	456	(1,554)	469
Deferred revenue	212	166	(43)	66
Cash provided by operating activities	2,603	2,931	4,100	4,708
<b>INVESTING ACTIVITIES</b>				
Change in accounts payable for capital	(1,637)	(52)	(2,522)	(690)
Purchases of property, plant and equipment	(1,444)	(4,447)	(5,288)	(10,352)
Cash used in investing activities	(3,081)	(4,499)	(7,810)	(11,042)
<b>FINANCING ACTIVITIES</b>				
Proceeds from notes payable	2,000	3,000	6,000	8,000
Repayment of notes payable	(459)	(23,984)	(459)	(23,984)
Proceeds from long term debt	-	23,684	-	23,684
Sinking fund installments	(237)	-	(237)	-
Cash provided by financial activities	1,304	2,700	5,304	7,700
<b>NET CHANGE IN CASH DURING THE PERIOD</b>	826	1,132	1,594	1,366
<b>CASH, BEGINNING OF PERIOD</b>	8,839	9,076	8,071	8,842
<b>CASH, END OF PERIOD</b>	\$ 9,665	\$ 10,208	\$ 9,665	\$ 10,208
<b>Supplementary Information:</b>				
Interest paid	\$ 568	\$ 103	\$ 1,180	\$ 542

(see accompanying notes)

# Notes to Consolidated Financial Statements

September 30, 2009

## 1. Status of Corporation

Saskatchewan Opportunities Corporation (the "Corporation"), which operates under the business name of Innovation Place, was incorporated under *The Saskatchewan Opportunities Corporation Act*, which was proclaimed and came into force in 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 the Crown Investments Corporation of Saskatchewan.

The mandate of Innovation Place is to create, encourage and facilitate business opportunities in the Saskatchewan technology sector, primarily through the development and operation of research parks.

## 2. Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are consistent with those used and described in the 2008 annual financial statements.

## 3. Comparative Figures

Certain amounts for the prior year have been reclassified to conform with current year financial statement presentation.

## 4. Future Changes in Accounting Policies

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises, including the Corporation, will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian Generally Accepted Accounting Principles for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures for the prior period. The Corporation developed an IFRS conversion plan and will be completing conversion procedures throughout fiscal 2009. The impact on the Corporation's future financial position and results on operations is not reasonably determinable.





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