SASKATCHEWAN OPPORTUNITIES CORPORATION

FIRST QUARTER REPORT

FOR THE THREE MONTHS ENDED JUNE 30, 2016 | **2016/17**

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STRATEGIC DIRECTION

VISION

Through partnerships and collaboration, Saskatchewan Opportunities Corporation (SOCO) is providing the foundation for innovation, research and technology that supports Saskatchewan's economic prosperity.

MISSION

To support and facilitate the advancement and success of Saskatchewan's technology and key growth sectors through the development and operations of research parks.

VALUES

Innovation

Innovation in all our business activities.

Collaboration

Open and accountable in all our partnerships.

Excellence

The pursuit of excellence in design, operations and administration.

GOALS

Public Purpose

To create awareness, attract and support the development of new technology opportunities by providing world class scientific and social infrastructure that promotes collaboration growth and innovation.

Stakeholders

To enhance innovation and partnerships thereby allowing engagement of stakeholders to achieve their goals and objectives. SOCO recognizes our key stakeholders include: tenants, post-secondary education institutions, industry associations, business communities, government and our employees.

Financial

Maintain profitability at a level that supports the growth and maintenance of our parks by prudently managing expenditures and enhancing revenues while providing superior value to our tenants.

Innovation

SOCO will promote and utilize innovation practices to empower our stakeholders to stimulate high performing commercial successes.

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following management's discussion and analysis for Saskatchewan Opportunities Corporation (SOCO or the Corporation) should be read in conjunction with the Corporation's unaudited condensed consolidated interim financial statements and notes to those statements for the three months ended June 30, 2016. What follows will provide the context within which the Corporation's unaudited condensed consolidated interim financial statements should be analyzed. The Board of Directors for SOCO has approved these unaudited condensed consolidated interim financial statements. For additional information relative to the operations and financial position of SOCO, refer to the Annual Report for the fifteen month period ended March 31, 2016.

FORWARD LOOKING INFORMATION

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

CORPORATE OVERVIEW

SOCO operates under the business name Innovation Place. The corporate mission is to support the growth and success of Saskatchewan's technology and key growth sectors. Innovation Place fulfills this mission through the development and operation of technology parks on the campuses of the province's two universities in Saskatoon and Regina.

The Saskatoon campus began operations in 1980 and presently is home to 111 tenants that occupy approximately 1.3 million square feet in 20 separate buildings. The Regina campus, opened in 2000, consists of 6 buildings housing 29 tenants and totaling approximately 465,000 square feet. The building in Prince Albert, opened in 2004, is 115,000 square feet and houses 18 tenants.

CORE BUSINESS

Innovation Place manages specialized buildings primarily for technology companies and the service organizations that support them. Building specialization includes research greenhouses, laboratory buildings and industrial pilot plants. Specialized infrastructure includes laboratory utilities such as pure water and steam, process utilities such as high pressure steam and chilled water as well as a high performance data network.

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. Historical vacancy within buildings is approximately five percent. Major categories of operating costs include utilities, municipal property 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.

OPERATIONAL HIGHLIGHTS

	For the Three Months ending June 30, 2016	2016/17 Target
Vacancy	7.8%	7.7%
Number of startups locating at Innovation Place	5	10

Vacancy

During the first quarter, the vacancy rate decreased by 2.2% from the 10.0% reported at March 31, 2016. While six new tenants occupied space in the first quarter, the decrease in vacancy was mainly due to the expansion commitment of one large tenant in Saskatoon. The parks' vacancy rate is below the current reported market vacancy of over 15% in Saskatoon and Regina. While additional tenant movement is expected during the year, it is anticipated the year end rate will be in line with the target.

Number of Startups Locating at Innovation Place

During the first quarter, five new startup companies occupied space at Innovation Place and negotiations are currently underway with additional new entities.

FINANCIAL HIGHLIGHTS

Results of Operations

(in thousands $ - unaudited)

	June 30, 2016 3 months		June 30, 2015 3 months		Change
Revenue	$	10,036	$	10,127	$	(91)
Operating expenses		(8,902)		(8,914)		12
Net finance expense		(293)		(464)		171
Net income	$	841	$	749	$	92

With the exception of net finance expense, financial results for the three month period ended June 30, 2016 were comparable to the same period in the prior year. The decrease in net finance income is due to a market value gain on the debt retirement fund in the first quarter.

Financial Position

(in thousands $)

		As at June 30, 2016 unaudited		As at March 31, 2016 audited		Change
Total assets	$	188,925	$	188,876	$	49
Total liabilities		40,598		41,372		(774)
Equity		148,327		147,504		823

The decrease in liabilities is due to lower trade and accrued payables at June 30, 2016 and a decrease in dividends payable at the end of the quarter.

Outlook

Net income is forecasted to March 31, 2017 to be $254, an increase of $173 from the $81 originally budgeted. The increase in net income is due to reductions in salaries and benefits as vacant positions are not being staffed this fiscal year along with lower amortization expense. Higher than average vacancy is expected to continue throughout 2016/17 with an anticipated decrease to more historical levels during the latter part of 2017.

Capital expenditures other than on the SRC project for the year are forecasted to be $8,144, reflecting a decrease of $82 when compared to the amount originally budgeted. The SRC project's forecasted capital expenditures at March 31, 2017 is $15,818, $1,032 lower than budget as it has taken longer than expected to complete initial design and tendering for the components of this project.

Total forecasted additions to notes payable is $17,000, unchanged from what was budgeted for the year.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated interim financial statements of the Saskatchewan Opportunities Corporation have been prepared by corporate management in accordance with International Accounting Standards 34, *Interim Financial Reporting*, 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 condensed consolidated interim financial statements at their meeting held August 24, 2016.

On behalf of management,

S.P. (Van) Isman
President and Chief Executive Officer

Brent Sukenik, CPA, CA
Chief Financial Officer

FINANCIAL REPORT

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

(in thousands $ - unaudited)

	NOTE	June 30, 2016 3 months	June 30, 2015 3 months
REVENUE			
Rental		$ 9,966	$ 10,049
Other		70	78
		10,036	10,127
EXPENSES	7		
Administration		1,037	1,124
Rental operations		7,865	7,790
		8,902	8,914
RESULTS BEFORE THE FOLLOWING		1,134	1,213
Finance income		141	(30)
Finance expenses		(434)	(434)
NET FINANCE EXPENSE		(293)	(464)
NET INCOME AND TOTAL COMPREHENSIVE INCOME		$ 841	$ 749

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

(in thousands $)

	At June 30, 2016 unaudited	At March 31, 2016 audited
ASSETS		
Current		
Cash and cash equivalents	$ 12,511	$ 12,854
Trade and other receivables	3,823	4,301
Inventory	126	117
Prepaid expenses	1,831	355
	18,291	17,627
Trade and other receivables	271	267
Property, plant and equipment	1,089	1,145
Investment property	165,633	166,424
Debt retirement fund	3,005	2,771
Other assets	636	642
	$ 188,925	$ 188,876
LIABILITIES AND PROVINCE'S EQUITY		
Current		
Trade and other payables	$ 2,355	$ 3,724
Dividends payable	18	318
Notes payable	1,000	0
Deferred revenue	541	646
	3,914	4,688
Long term debt	36,684	36,684
	40,598	41,372
PROVINCE OF SASKATCHEWAN'S EQUITY		
Retained earnings	31,640	30,817
Equity advances	116,687	116,687
	148,327	147,504
	$ 188,925	$ 188,876

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

(in thousands $ - unaudited)

	Equity advances	Retained earnings	Total equity
BALANCE AT DECEMBER 31, 2014	$ 118,687	$ 30,660	$ 149,347
Net income for the period	–	1,646	1,646
Dividends declared for the period	–	(1,489)	(1,489)
Equity repayment	(2,000)	–	(2,000)
BALANCE AT MARCH 31, 2016	$ 116,687	$ 30,817	$ 147,504
Net income for the period	–	841	841
Dividends declared for the period	–	(18)	(18)
BALANCE AT JUNE 30, 2016	$ 116,687	$ 31,640	$ 148,327

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

(in thousands $ - unaudited)

	June 30, 2016 3 months	**June 30, 2015** 3 months
OPERATING ACTIVITIES		
Net income	$ 841	$ 749
Non-cash adjustments:		
Amortization of property, plant and equipment	87	82
Amortization of investment property	2,219	1,960
Finance income	(141)	30
Finance expense	434	434
	3,440	3,255
Working capital adjustments:		
Trade and other receivables	479	(563)
Inventory	(9)	28
Prepaid expenses	(1,476)	(1,435)
Trade and other payables, excluding interest	(1,492)	(638)
Deferred revenue	(105)	(80)
Cash provided by operating activities	837	511
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(31)	(194)
Purchase of investment property	(1,427)	(530)
Interest received	32	32
Increase in other assets	6	107
Cash used in investing activities	(1,420)	(585)
FINANCING ACTIVITIES		
Proceeds from notes payable	1,000	0
Debt retirement fund installments	(130)	(130)
Interest paid	(312)	(312)
Dividends paid	(318)	(361)
Cash provided by / (used in) financing activities	240	(803)
NET CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	(343)	(877)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	12,854	11,291
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 12,511	$ 10,414

NOTES TO CONDENSE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands $ - unaudited)

1. General Information

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 has been designated a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. The financial results of the Corporation are included in the consolidated financial statements of CIC. As a provincial Crown corporation, the Corporation is subject to neither federal nor provincial income tax.

The Corporation's mandate is to create, encourage and facilitate business opportunities in the Saskatchewan technology sector, primarily through the development and operation of technology parks.

The Corporation's head office is located at 114 – 15 Innovation Boulevard in Saskatoon, Saskatchewan.

2. Basis of Preparation

a) Statement of compliance

These unaudited condensed consolidated interim financial statements for the three months ended June 30, 2016 have been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards (IFRS) and the presentation and disclosure requirements of International Accounting Standards (IAS) 34, *Interim Financial Reporting*. These unaudited condensed consolidated interim financial statements do not include all of the information required for full annual financial statements, and accordingly should be read in conjunction with the March 31, 2016 audited consolidated financial statements.

These unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 24, 2016.

b) Basis of measurement

These unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis except for held-for-trading financial instruments which are measured at fair value.

c) Functional and presentation currency

These unaudited condensed consolidated interim financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

d) Use of estimates and judgments

The preparation of financial statements in conformity with 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 ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant items subject to estimates and assumptions include the carrying amounts of property, plant and equipment and investment property, and the underlying estimations of useful lives, capitalization of interest, disposal of long-lived assets, asset retirement obligations, and labour and directly attributable overhead; and the carrying amounts of accounts receivable, inventory and investments.

Areas of judgments in applying accounting policies that have the most effect on the amounts recognized in these unaudited condensed consolidated interim financial statements include the accounting for special purpose entities and the determination of cash generating units.

3. Significant Accounting Policies

The accounting policies applied by the Corporation in these unaudited condensed consolidated interim financial statements are consistent with those disclosed by the Corporation in its March 31, 2016 audited consolidated financial statements.

4. New Standards and Interpretations Not Yet Adopted

IFRS 9, *Financial Instruments*

The final version of IFRS 9 was issued by the IASB in July 2014 and will replace IAS 39, *Financial Instruments: Recognition and Measurement*. The standard is to be applied prospectively.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. Under IFRS 9, financial assets will generally be measured initially at fair value plus particular transaction costs, and subsequently at either amortized cost or fair value. Financial liabilities measured at fair value will present any change in its fair value due to changes in the entity's credit risk in other comprehensive income, rather than within net earnings. This standard is effective for annual periods beginning on or after January 1, 2018. The Corporation does not intend to early adopt this standard but is reviewing it to determine the potential impact, if any, on the consolidated financial statements.

IFRS 15, *Revenue from Contracts with Customers*

On May 28, 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*. The new standard establishes principles to record revenues from contracts for the sale of goods or services, unless the contracts are in the scope of other IFRS standards. Under IFRS 15, revenue is recognized at an amount that reflects the expected consideration receivable in exchange for transferring goods or services to a customer, applying a new five step model.

The new standard also provides guidance relating to contract costs and for the measurement and recognition of gains and losses on the sale of certain non-financial assets such as property and equipment. Additional disclosures will also be required under the new standard. IFRS 15 must be adopted for annual periods beginning on or after January 1, 2018 using either a full retrospective approach for all periods presented in the period of adoption, a modified retrospective approach, or a retrospective cumulative effect approach. The Corporation is in the process of assessing the impact of the adoption of the standard on the consolidated financial statements.

IFRS 16, *Leases*

IFRS 16 was issued on January 13, 2016 and will be replacing IAS 17, *Leases*. The new standard has significant changes for lessees, as most leases will be recognized on-balance sheet, subject to specific exemptions for short term leases or low lease value, under a single measurement model with recorded assets and liabilities. Lessor accounting remains largely unchanged and retains the distinction between operating and finance leases but essentially removes the sale and leaseback option. As well, the definition of what is a lease has been revised, with an increased focus on who controls the leased asset.

This standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 has also been applied. The Corporation has not started the process of assessing its leases nor the impact of adopting this standard on the consolidate financial statements.

5. Operating and Administration Expenses

Total operating and administration expenses were as follows:

	June 30, 2016 3 months	**June 30, 2015** 3 months
Employee benefits	$ 2,476	$ 2,480
Utilities	1,148	1,168
Grants in lieu of property taxes	1,413	1,301
Amortization	2,305	2,046
Inventory consumed in the provision of services	157	145
Other	1,403	1,774
	$ 8,902	$ 8,914

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