2017/18 | Saskatchewan Opportunities Corporation

THIRD QUARTER REPORT

For the nine months ended December 31, 2017

SOCO

Contents

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 operation 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, operation and administration.

GOALS

Crown Investments Corporation of Saskatchewan (CIC) provides all Crown corporations with clear direction for establishing corporate goals. Goals are required to be set in the four categories of Public Purpose, Stakeholders, Financial and Innovation. SOCO's broad corporate goals reflect the mandate and history of the parks.

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.

Financial

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

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.

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 nine months ended December 31, 2017. 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 year ended March 31, 2017.

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 includes 20 buildings with 1.3 million square feet of space. The Regina campus opened in 2000 and includes 6 buildings with 465,000 square feet of space.

CORE BUSINESS

The business model of Innovation Place is based on the typical research park concept. Although research parks are by "their nature real estate developments, the profitability and expansion of real estate holdings is a minor consideration compared to the focus on leveraging the real estate for broader innovation and economic development goals in the region."[1] The focus for Innovation Place is the growth of Saskatchewan's technology sector.

What sets Innovation Place apart from real estate companies is the comprehensive nature of the working environment we provide our tenants and their employees. We believe that our environment must integrate five key aspects: the tenants and clusters; the technical environment; the social environment; the physical environment; and the business environment. A diverse mix of tenants, technology and service tenants, a dynamic social atmosphere and high quality facilities work together to create a community that encourages innovation, collaboration and entrepreneurship.

1 Battelle Technology Partnership Practice, *Driving Regional Innovation and Growth: Results from the 2012 Survey of North American University Research Parks*, August 2013: 8.

FINANCIAL RESULTS

Results of Operations

(in thousands $ - unaudited)

	December 31, 2017 3 months	December 31, 2016 3 months	Change	December 31, 2017 9 months	December 31, 2016 9 months	Change
Revenue	$ 9,576	$ 9,473	$ 103	$ 29,666	$ 29,251	$ 415
Operating expenses	(8,212)	(8,456)	244	(25,421)	(28,048)	2,627
Net finance expense	(359)	(547)	188	(1,148)	(1,198)	50
Net income	$ 1,005	$ 470	$ 535	$ 3,097	$ 5	$ 3,092

Total revenue for the nine month period ended December 31, 2017 is slightly higher than the prior year as recoverable occupancy costs for property taxes are higher in fiscal 2017/18. Operating expense are $2,627 lower than the same period in the prior year due to an allowance being recorded for $1.6 million and one-time amortization adjustments of $578 due to revising the useful lives of equipment being replaced. The decrease in net finance expense is due to increased interest expense as the balance of short term debt is higher than last year which is offset by the unrealized market value adjustment related to the debt retirement fund no longer being included in the calculation of net income for the fiscal year 2017/18.

OUTLOOK

Net income is forecasted to March 31, 2018 to be $5,075, an increase of $1,370 from the $3,705 originally budgeted. The forecasted increase in net income is mainly due to the additional 8.5 months of operational results from the Prince Albert Forest Centre as the expected sale closing date has been moved to March 2018. Also contributing to the variance is decreased administration expenses.

Capital expenditures are forecasted at a slightly lower amount than budgeted as tenant improvements for renewals or for new tenants entering the parks has not occurred. Construction on the SRC project is forecasted to be completed by the end of the fiscal year with SRC occupying the space in April 2018. Total forecasted additions to notes payable, which are tied to the SRC project, is 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 February 21, 2018.

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 Income and Comprehensive Income

(in thousands $ – unaudited)

	Note	December 31, 2017 3 months	December 31, 2016 3 months	December 31, 2017 9 months	December 31, 2016 9 months
Revenue					
Rental		$ 9,535	$ 9,500	$ 29,549	$ 29,126
Other		41	(27)	117	125
		9,576	9,473	29,666	29,251
Expenses	*5*				
Administration		916	917	2,814	3,019
Rental operations		7,296	7,539	22,607	25,029
		8,212	8,456	25,421	28,048
Results before the following		1,364	1,017	4,245	1,203
Finance income		75	(107)	164	114
Finance expenses		(434)	(440)	(1,312)	(1,312)
Net finance expense		(359)	(547)	(1,148)	(1,198)
Net income		1,005	470	3,097	5
Other comprehensive income					
Items that are or may be reclassified to net income					
Debt retirement fund – market value adjustment		77	–	45	–
Total other comprehensive income		77	–	45	–
Total comprehensive income		$ 1,082	$ 470	$ 3,142	$ 5

(see accompanying notes)

Condensed Consolidated Interim Statement of Financial Position

(in thousands $)

	Note	At December 31, 2017 (unaudited)	At March 31, 2017 (audited)
Assets			
Current			
Cash and cash equivalents		$ 13,322	$ 10,846
Trade and other receivables		1,923	1,645
Inventory		149	115
Prepaid expenses		130	315
Assets held-for-sale		5,644	5,637
		21,168	18,558
Trade and other receivables		165	204
Property, plant and equipment		1,358	1,571
Investment property		171,865	163,872
Debt retirement fund		3,646	3,181
Other assets		704	622
		$ 198,906	$ 188,008
Liabilities and Province's Equity			
Current			
Trade and other payables		$ 4,947	$ 6,375
Dividends payable		790	–
Notes payable		16,000	6,000
Deferred revenue		994	762
		22,731	13,137
Finance lease obligation		129	166
Long-term debt		36,684	36,684
		59,544	49,987
Province of Saskatchewan's Equity			
Retained earnings		32,692	31,334
Accumulated other comprehensive loss	3	(17)	–
Equity advances		106,687	106,687
		139,362	138,021
		$ 198,906	$ 188,008

(see accompanying notes)

Condensed Consolidated Interim Statement of Changes in Equity

(in thousands $ – unaudited)

	Note	Equity advances	Accumulated other comprehensive loss (restated) (see note 3)	Retained earnings (restated) (see note 3)	Total equity
Balance at March 31, 2016		$ 116,687	$ –	$ 30,817	$ 147,504
Net income for the year		–	–	517	517
Dividends declared for the year		–	–	–	–
Equity repayment		(10,000)	–	–	(10,000)
Balance at March 31, 2017		106,687	–	31,334	138,021
Impact of adoption of IFRS 9	*3*	–	(62)	62	–
As restated, April 1, 2017		106,687	(62)	31,396	138,021
Net income for the period		–	–	3,097	3,097
Other comprehensive income for the period		–	45	–	45
Dividends declared for the period		–	–	(1,801)	(1,801)
Balance at December 31, 2017		$ 106,687	$ (17)	$ 32,692	$ 139,362

(see accompanying notes)

Condensed Consolidated Interim Statement of Cash Flows

(in thousands $ – unaudited)

	Note	December 31, 2017 3 months	December 31, 2016 3 months	December 31, 2017 9 months	December 31, 2016 9 months
Operating Activities					
Net income		$ 1,005	$ 470	$ 3,097	$ 5
Non-cash adjustments:					
Amortization of property, plant and equipment		65	92	261	265
Amortization of investment property		1,938	2,225	5,872	6,769
Finance income		(75)	107	(164)	(114)
Finance expense		434	440	1,312	1,312
		3,367	3,334	10,378	8,237
Working capital adjustments:					
Trade and other receivables		(230)	374	(239)	2,673
Inventory		13	(1)	(34)	(35)
Prepaid expenses		862	865	185	233
Trade and other payables, excluding interest		(931)	(172)	(1,579)	(843)
Deferred revenue		(168)	(190)	232	317
Cash provided by operating activities		2,913	4,210	8,943	10,582
Investing Activities					
Purchase of property, plant and equipment		(24)	(79)	(105)	(150)
Purchase of investment property		(3,771)	(3,000)	(13,845)	(6,425)
Payments on long-term receivable		47	–	103	–
Interest received		19	29	58	91
Change in other assets		(1)	13	(82)	31
Cash used in investing activities		(3,730)	(3,037)	(13,871)	(6,453)
Financing Activities					
Net proceeds from notes payable	6	2,000	2,000	10,000	3,000
Debt retirement fund installments		–	–	(367)	(367)
Finance lease obligation paid	6	(12)	–	(36)	–
Interest paid		(278)	(312)	(1,182)	(1,184)
Dividends paid	6	(686)	–	(1,011)	(318)
Equity repayment		–	(10,000)	–	(10,000)
Cash provided by / (used in) financing activities		1,024	(8,312)	7,404	(8,869)
Net change in cash and cash equivalents during the period		207	(7,139)	2,476	(4,740)
Cash and cash equivalents, beginning of period		13,115	15,253	10,846	12,854
Cash and cash equivalents, end of period		$ 13,322	$ 8,114	$ 13,322	$ 8,114

(see accompanying notes)

Notes to the Condensed 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 nine months ended December 31, 2017 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, 2017 audited consolidated financial statements.

These unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on February 21, 2018.

b) Basis of measurement

These unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis except for financial instruments, which are measured at fair value and reported at fair value through other comprehensive income.

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, 2017 audited consolidated financial statements except for the following:

Application of new and revised International Financial Reporting Standards

IAS 7, *Statement of Cash Flows*

Effective April 1, 2017, the Corporation has adopted the disclosure requirements in *Disclosure Initiative (amendments to IAS 7)* in accordance with the provisions of that standard. Additional disclosures in relation to the changes in liabilities arising from financing activities for the period ended December 31, 2017 have been provided in note 6. Comparative information has not been presented.

IFRS 9, *Financial Instruments (2014)*

Effective April 1, 2017, the Corporation has early adopted IFRS 9 *Financial Instruments* issued in July 2014 (IFRS 9) with a date of initial application of April 1, 2017. The Corporation has elected to adopt the standard retrospectively with impacts recorded in retained earnings as of April 1, 2017. The requirements of IFRS 9 represent a significant change from the previous standard IAS 39 *Financial Instruments: Recognition and Measurement.*

The Corporation also adopted consequential amendments to IAS 1 *Presentation of Financial Statements* upon implementation of IFRS 9. Those amendments require impairment of financial assets to be presented in a separate line item in the consolidated statement of income and comprehensive income. Previously, the Corporation's approach was to include the impairment of trade and other receivables in rental operations expenses. Additionally, the Corporation adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2017/18 but generally have not been applied to comparative information.

The key changes to the Corporation's accounting policies resulting from its adoption of IFRS 9 are summarized below.

Classification of financial assets and financial liabilities

IFRS 9 contains three categories for financial assets: measured at amortized cost; fair value through other comprehensive income (FVOCI); and fair value through profit or loss (FVTPL). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of: held to maturity; loans and receivables; and available for sale. Derivatives embedded in contracts where the host is a financial asset under IFRS 9 are no longer separated and the entire hybrid financial instrument is assessed for classification.

The adoption of IFRS 9 has not had a significant effect on the Corporation's accounting policies for financial liabilities.

Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss (ECL) model. Loss allowances are measured at an amount equal to the lifetime ECL for financial assets measured at amortized cost and 12-month ECL for debt retirement fund investments at FVOCI, which have been determined to have a low credit risk at the reporting date.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date. In all cases, the maximum period considered when estimating ECLs is the maximum contractual period over which the Corporation is exposed to credit risk. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Corporation considers all reasonable and supportable information that is relevant and available without undue cost or effort. The Corporation views credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Corporation considers a financial asset to be in default when the counterparty is unlikely to pay its obligations in full, without the Corporation acting on security held (if any is held); and the financial asset is over 120 days past due.

Assets measured at amortized cost (trade and other receivables) are assessed based on an aging of the accounts and historical payment patterns of the counterparty. The application of the ECL model has not had a significant impact on impairment assessment for trade and other receivables. Assets measured at FVOCI (debt retirement fund) are assessed based on the credit risk rating of the investments held in that fund. The Corporation considers a debt security to have low credit risk when its credit risk rating is equivalent to the definition of investment grade (AA or higher per DBRS or Aa or higher per Moody's). Investments held within the debt retirement fund are rated investment grade and there have been no defaults. As a result, the application of the ECL model has not had a significant impact on the impairment assessment on the debt retirement fund.

Transition

The change in accounting policies due to the adoption of IFRS 9 (2014) have been applied retrospectively in accordance with the transition provisions in this standard. Opening retained earnings at April 1, 2017 increased by $62 and the opening balance at April 1, 2017 for accumulated other comprehensive loss increased by $62.

Debt retirement fund investments (the Fund) was previously classified as FVTPL are now classified as FVOCI under IFRS 9. This Fund is managed by the Ministry of Finance, Government of Saskatchewan on behalf of all provincial ministries and Crown corporations. Their business model used for this Fund is to match the duration of the financial assets to the duration of the debt that the assets are funding. Thus, the business model is to hold and collect contractual cash flows (payments of principal and interest) as well as sale proceeds realized through matching of durations. Any realized gains or losses, along with interest received are recorded in finance income that becomes part of net income while unrealized gains and losses are now recorded in other comprehensive income.

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (2014)

The following table shows the measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Corporation's financial assets and financial liabilities as at April 1, 2017. There were no changes to the carrying amounts due to the reclassifications.

	IAS 39 Classification	IFRS 9 Classification
Financial Assets		
Cash and cash equivalents	FVTPL	FVTPL
Trade and other receivables	L&R	Amortized cost
Debt retirement fund	FVTPL	FVOCI
Financial Liabilities		
Trade and other payables	OL	OL
Notes payable	OL	OL
Dividends payable	OL	OL
Finance lease obligation	OL	OL
Long-term debt	OL	OL

FVTPL – fair value through profit or loss
FVOCI – fair value through other comprehensive income
L&R – loans and receivables
OL – other liabilities

4. New Standards and Interpretations Not Yet Adopted

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 by the Corporation for the fiscal period beginning on April 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 continues assessing the impact of the adoption of this 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 the Corporation's annual period beginning on April 1, 2019. Early adoption is permitted if IFRS 15 has also been adopted. The Corporation has assessed its current operating leases where it is the lessee, and has determined that the impact of adopting this standard may be material to the consolidated statement of financial position.

5. Operating and Administration Expenses

Total operating and administration expenses were as follows:

	December 31, 2017 (3 months)	December 31, 2016 (3 months)	December 31, 2017 (9 months)	December 31, 2016 (9 months)
Employee benefits	$ 2,305	$ 2,449	$ 7,087	$ 7,430
Utilities	1,235	940	3,823	3,371
Grants in lieu of property taxes	828	790	3,253	3,220
Amortization	2,002	2,317	6,133	7,034
Inventory consumed in the provision of services	149	138	459	468
Other	1,693	1,822	4,666	6,525
	$ 8,212	$ 8,456	$ 25,421	$ 28,048

6. Additional Financial Information

Changes in liabilities arising from financing activities:

	Long-term debt	Notes payable	Finance lease obligation	Retained earnings (restated)	Total
Balance at April 1, 2017	$ 36,684	$ 6,000	$ 166	$ 31,396	$ 74,246
Changes from financing cash flows:					
Proceeds from borrowings	–	50,000	–	–	50,000
Repayment of borrowings	–	(40,000)	–	–	(40,000)
Repayment of lease obligation	–	–	(37)	–	(37)
Total changes from financing cash flows	–	10,000	(37)	–	9,963
Total equity related other changes	–	–	–	1,296	1,296
Balance at December 31, 2017	$ 36,684	$ 16,000	$ 142	$ 32,692	$ 85,505

CORPORATE OFFICE

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