

*Saskatchewan Opportunities Corporation*

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# FOURTH QUARTER REPORT 2015

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*For the Twelve Months Ended December 31, 2015*



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# STRATEGIC DIRECTION

## 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.*

## VISION

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

## 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 success 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 twelve months ended December 31, 2015. 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 December 31, 2014.

## 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.

## CHANGE OF YEAR END

The Corporation has been directed to change its fiscal year end to March 31 to coincide with that of its owner. The first complete fiscal period will consist of the fifteen months ending March 31, 2016. Information included in the following discussion focuses on the first twelve months of the current fiscal period as compared to the twelve month period ending December 31, 2014.

## 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 as well as a forest sector building in downtown Prince Albert.

The Saskatoon campus began operations in 1980 and presently is home to 112 tenants that occupy approximately 1.2 million square feet in 20 separate buildings. The Regina campus, opened in 2000, consists of 6 buildings housing 27 tenants and totaling approximately 465,000 square feet. The building in Prince Albert, opened in 2004, is 115,000 square feet and houses 20 tenants. The number of people working in Innovation Place facilities totals 3,945 spread proportionately through the three locations.

## 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

	<b>For the Twelve Months ending December 31, 2015</b>	<b>2015 Target</b>
Employment within Innovation Place	3,945	4,280
Vacancy	9.6%	8.3%

### Employment within Innovation Place

Total employment within Innovation Place at December 31 is 3,945, which is a decrease of 371 people for the twelve months ended December 31, 2015. This is approximately 8% less than the 2015 target. The reduction is largely due to declines experienced by a few large tenants in both Saskatoon and Regina. In Saskatoon, impacts of the current economic environment has resulted in resource sector companies downsizing and employee reductions for two large engineering tenants while the University of Saskatchewan satellite offices were relocated back to the main campus. In Regina, there were minimal fluctuations during the fourth quarter; however, for the twelve months, several larger tenants in the IT sector reduced their staffing levels.

### Vacancy

The overall vacancy rate at Innovation Place increased to 9.6% at the end of December 2015. Both Regina and Saskatoon had their respective vacancy rates increased during the quarter while Prince Albert remained constant. The current vacancy rate is higher than the target of 8.3%. Despite the increase, the vacancy rates of Innovation Place remain lower than those in the commercial markets for Saskatoon and Regina. New demand for specialty space in Saskatoon is also encouraging relative to potential leasing opportunities.

## FINANCIAL HIGHLIGHTS

### Results of Operations

(in thousands \$ - Unaudited, except 12 months December 31, 2014 audited)

	<b>December 31, 2015</b> 3 months	<b>December 31, 2014</b> 3 months	<b>Change</b>	<b>December 31, 2015</b> 12 months	<b>December 31, 2014</b> 12 months	<b>Change</b>
Revenue	\$ 9,399	\$ 9,548	\$ (149)	\$ 38,133	\$ 39,401	\$ (1,268)
Operating expenses	(9,262)	(9,247)	(15)	(35,363)	(35,599)	236
Net finance expense	(370)	(377)	7	(1,494)	(1,401)	(93)
Net loss from discontinued operations	–	–	–	–	(89)	89
Net (Loss) / Income	\$ (233)	\$ (76)	\$ (157)	\$ 1,276	\$ 2,312	\$ (1,036)

Revenue for the twelve month period ended December 31, 2015 is down \$1,268. The decrease is due to higher vacancy rates experienced in 2015.

The \$236 decrease in operating expenses for the twelve month period ended December 31, 2015 is primarily due to lower utility expenses as a result of a warmer winter weather experienced in 2015. Reductions in discretionary expenditures also contributed to reducing operating expenditures.

Net finance expense has increased \$93 from December 31, 2014. Interest expense has remained constant as no new debt has been added in 2015; however, interest earned on the debt retirement fund along with the change in the unrealized market value of the investments held by the debt retirement fund have declined during 2015 as the world economy continues to remain unsettled.

The Bio Processing Centre (discontinued operations) was leased to a third party effective April 1, 2014, thus there is no loss for it during 2015 whereas 2014 has operating results for the first three months.



## Financial Position

(in thousands \$ - Unaudited, except 12 months December 31, 2014 audited)

	As at December 31, 2015	As at December 31, 2014	Change
Total assets	\$ 189,000	\$ 191,080	\$ (2,080)
Total liabilities	41,548	41,733	(185)
Equity	147,452	149,347	(1,895)

Total assets have decreased \$2,080 from December 31, 2015. Property, plant and equipment along with investment property have decreased \$6,112 due to amortization of \$9,298 offset by additions of \$3,186. Current assets, other than cash, have increased \$1,547 as trade receivables are higher due to a change in the timing of the collection of a large receivable to early 2016 instead of 2015, prepaid expenses are higher by \$100 due to multi-year licencing agreements for software, while cash and cash equivalents are up \$2,301.

The decrease in liabilities is due to lower deferred revenue of \$201 as the amount of rent paid in advance decreased, with the change in trade and other payables along with dividend payable making up the remainder of the change.

## Outlook

Net income for the twelve months ended December 31, 2015 is \$1,276, \$5,866 lower than the \$7,142 original budget. The reduction to net income is due to (1) the Prince Albert property not selling in 2015; (2) a significant tenant project has increased amortization expense as component assets that will be replaced during the project were fully amortized in the year and (3) increased vacancy resulted in a negative impact on earnings. Offsetting these variances is the impact of cost restraint measures implemented during the year along with lower operating costs for buildings within the parks.

SOCO has been directed to adopt a year end that coincides with its owner. The new year end is March 31, 2016. SOCO has established a revised fifteen month net income target of \$673. Vacancies will continue to be an issue in the last three months as economic conditions remain unsettled, reducing income. Based on the actual twelve month results to December 31, SOCO anticipates exceeding the revised income target at March 31, 2016.

# 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 (IAS) 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 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 (LOSS)

(in thousands \$ - Unaudited, except 12 months December 31, 2014 audited)

	Note	December 31, 2015 3 months	December 31, 2014 3 months	December 31, 2015 12 months	December 31, 2014 12 months
<b>REVENUE</b>					
Rental		\$ 9,321	\$ 9,465	\$ 37,827	\$ 39,168
Other		78	83	306	233
		9,399	9,548	38,133	39,401
<b>EXPENSES</b>					
Administration	6	1,189	1,158	4,346	4,588
Rental operations		8,073	8,089	31,017	31,011
		9,262	9,247	35,363	35,599
<b>RESULTS BEFORE THE FOLLOWING</b>					
		137	301	2,770	3,802
Finance income		69	62	246	339
Finance expenses		(439)	(439)	(1,740)	(1,740)
<b>NET FINANCE EXPENSE</b>					
		(370)	(377)	(1,494)	(1,401)
Profit / (loss) from continuing operations		(233)	(76)	1,276	2,401
Loss on discontinued operations	5	–	–	–	(89)
<b>NET INCOME / (LOSS) AND TOTAL COMPREHENSIVE INCOME (LOSS)</b>					
		\$ (233)	\$ (76)	\$ 1,276	\$ 2,312

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

(in thousands \$ - Unaudited, except 12 months December 31, 2014 audited)

	<i>Note</i>	<b>At December 31, 2015</b>	<b>At December 31, 2014</b>
<b>ASSETS</b>			
Current			
Cash and cash equivalents		\$ 12,648	\$ 10,347
Trade and other receivables		4,659	3,195
Inventory		142	159
Prepaid expenses		155	55
Assets held-for-sale	5	–	6,090
		17,604	19,846
Trade and other receivables		264	252
Property, plant and equipment	5	1,210	1,321
Investment property	5	166,490	166,401
Debt retirement fund		2,729	2,244
Other assets		703	1,016
		\$ 189,000	\$ 191,080
<b>LIABILITIES AND PROVINCE'S EQUITY</b>			
Current			
Trade and other payables		\$ 3,609	\$ 3,637
Dividends payable		579	535
Deferred revenue		676	877
		4,864	5,049
Long term debt		36,684	36,684
		41,548	41,733
<b>PROVINCE OF SASKATCHEWAN'S EQUITY</b>			
Retained earnings		30,765	30,660
Equity advances		116,687	118,687
		147,452	149,347
		\$ 189,000	\$ 191,080

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

(in thousands \$ - Unaudited, except 12 months December 31, 2014 audited)

	<b>Equity advances</b>	<b>Retained earnings</b>	<b>Total equity</b>
BALANCE AT DECEMBER 31, 2013	\$ 120,687	\$ 30,327	\$ 151,014
Net income for the year	-	2,312	2,312
Dividends declared for the year	-	(1,979)	(1,979)
Equity repayment	(2,000)	-	(2,000)
BALANCE AT DECEMBER 31, 2014	\$ 118,687	\$ 30,660	\$ 149,347
Net income for the period	-	1,276	1,276
Dividends declared for the period	-	(1,171)	(1,171)
Equity Repayment	(2,000)	-	(2,000)
BALANCE AT DECEMBER 31, 2015	\$ 116,687	\$ 30,765	\$ 147,452

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

(in thousands \$ - Unaudited, except 12 months December 31, 2014 audited)

	<b>December 31, 2015</b> 3 months	<b>December 31, 2014</b> 3 months	<b>December 31, 2015</b> 12 months	<b>December 31, 2014</b> 12 months
<b>OPERATING ACTIVITIES</b>				
Net income / (loss)	\$ (233)	\$ (76)	\$ 1,276	\$ 2,312
Non-cash adjustments:				
Amortization of property, plant and equipment	87	89	338	397
Amortization of investment property	2,654	2,183	8,960	7,854
Loss on disposal of property, plant and equipment	–	–	–	42
Finance income	(69)	(62)	(246)	(339)
Finance expense	439	439	1,740	1,740
	2,878	2,573	12,068	12,006
Working capital adjustments:				
Trade and other receivables	(431)	(200)	(1,464)	(222)
Inventory	38	3	17	44
Prepaid expenses	789	809	(100)	(1)
Trade and other payables, excluding interest	429	766	(28)	(1,785)
Deferred revenue	317	175	(201)	339
Cash provided by operating activities	4,020	4,126	10,292	10,381
<b>INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment	(145)	(144)	(217)	(254)
Purchase of investment property	(705)	(2,337)	(2,969)	(5,979)
Interest received	27	30	116	129
Increase in other assets	88	131	313	287
Cash used in investing activities	(735)	(2,320)	(2,757)	(5,817)
<b>FINANCING ACTIVITIES</b>				
Debt retirement fund installments	–	–	(367)	(367)
Interest paid	(312)	(312)	(1,740)	(1,740)
Dividends paid	(58)	(532)	(1,127)	(1,422)
Equity Repayment	–	–	(2,000)	(2,000)
Cash used in financing activities	(370)	(844)	(5,234)	(5,529)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD</b>	<b>2,915</b>	<b>962</b>	<b>2,301</b>	<b>(965)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>9,733</b>	<b>9,385</b>	<b>10,347</b>	<b>11,312</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 12,648</b>	<b>\$ 10,347</b>	<b>\$ 12,648</b>	<b>\$ 10,347</b>

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(in thousands \$ - Unaudited, except 12 months December 31, 2014 audited)

## 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 taxes.

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 twelve months ended December 31, 2015 have been prepared in accordance with the recognition and measurement requirements of IFRS and the presentation and disclosure requirements of International Accounting Standards 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 December 31, 2014 audited consolidated financial statements.

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

### b) Change of year end

The Corporation has been directed to change its fiscal year end to March 31 to coincide with that of its owner. The first complete fiscal period will consist of fifteen months ending March 31, 2016. Information included in these statements focuses on the first twelve months of the current period as compared to the twelve month period ending December 31, 2014.

### c) 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.

#### **d) 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.

#### **e) 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; provision for unpaid claims; 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 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 December 31, 2014 audited consolidated financial statements.

### **4. New Standards and Interpretations Not Yet Adopted**

A number of new standards and amendments to standards and interpretations are not yet effective for the period ended December 31, 2015 and have not been applied in preparing these unaudited condensed consolidated interim financial statements.

#### **IAS 1, Presentation of Financial Statements**

IAS 1 was amended by the IASB in December 2014 that clarifies that materiality applies to all parts of the financial statements, and provides examples of how to clarify understandability and comparability in the ordering of note disclosures. The Corporation intends to adopt these amendments in its financial statements for its annual period beginning on April 1, 2016. The Corporation does not expect the amendments to have a material impact on the consolidated financial statements.



**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 nonfinancial 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 this standard on the consolidated financial statements.

**IFRS 16, Leases**

The final version of IFRS 16 will be issued in early January 2016 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 asset 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, *Revenue from Contracts with Customers* has also been applied. The Corporation has not started the process of assessing its leases nor the impact of the adoption of this standard on the consolidated financial statements.

## 5. Assets Held-For-Sale

At the end of 2014, the Corporation committed to a plan to sell a building located in Prince Albert during 2015. Accordingly, this asset was classified as Assets held-for-sale and was not depreciated. During 2015, it was reported at its carrying value, which was lower than the fair value less costs to sell.

Although the building continues to be actively marketed for sale, it is unlikely to generate a sale given current market conditions. Accordingly, each component of the Assets held-for-sale has been restated back to Property, plant and equipment and Investment property of \$10 and \$6,080 respectively. Twelve months of depreciation of \$3 and \$267 was expensed for these assets at December 31, 2015.

## 6. Operating and Administration Expenses

Total operating and administration expenses, excluding discontinued operations, were as follows:

	<b>December 31, 2015</b> 3 months	<b>December 31, 2014</b> 3 months	<b>December 31, 2015</b> 12 months	<b>December 31, 2014</b> 12 months
Employee benefits	\$ 2,466	\$ 2,571	\$ 9,838	\$ 10,076
Utilities	1,167	1,262	4,849	5,063
Grants in lieu of property taxes	731	765	3,531	3,501
Amortization	2,741	2,273	9,298	8,218
Inventory consumed in the provision of services	162	163	606	625
Other	1,995	2,213	7,241	8,116
	<b>\$ 9,262</b>	<b>\$ 9,247</b>	<b>\$ 35,363</b>	<b>\$ 35,599</b>





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