

**Q3 REPORT 2018 / 19**

FOR THE NINE MONTHS ENDED DECEMBER 31, 2018

# SASKATCHEWAN OPPORTUNITIES CORPORATION



Helping grow  
Saskatchewan's  
tech sector.

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# TABLE OF CONTENTS

- 1** OUR STRATEGY
- 2** MANAGEMENT'S DISCUSSION AND ANALYSIS
- 4** MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS
- 5** FINANCIAL REPORT

# OUR STRATEGY

## 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

SOCO fully subscribes to the Crown sector values of honesty, integrity, fairness and respect, and social and environmental responsibility. In addition, the following values have naturally grown within SOCO and differentiate us from others in the industry.

### 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

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.

### 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 nine months ended December 31, 2018. What follows will provide the context within which the Corporation's unaudited condensed consolidated interim financial statements should be analyzed. The Board of Directors of 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, 2018.

## 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 of 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 adjacent to 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."<sup>1</sup> The focus for Innovation Place is the growth of Saskatchewan's technology sector.

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

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.

## FINANCIAL RESULTS

### RESULTS OF OPERATIONS

(in thousands \$ – Unaudited)

	December 31, 2018 3 months	December 31, 2017 3 months	Change	December 31, 2018 9 months	December 31, 2017 9 months	Change
Revenue	\$ 9,822	\$ 9,576	\$ 246	\$ 30,701	\$ 29,666	\$ 1,035
Operating expenses	(8,497)	(8,212)	(285)	(26,720)	(25,421)	(1,299)
Net finance expense	(445)	(359)	(86)	(1,291)	(1,148)	(143)
Net income	\$ 880	\$ 1,005	\$ (125)	\$ 2,690	\$ 3,097	\$ (407)

Total revenue for the nine month period ended December 31, 2018 was \$1,035 higher than the same period in the prior year due to the completion of the SRC renovation project. SRC took occupancy of the space on March 23, 2018. Operating expenses are higher primarily due to amortization commencing on the SRC project space. The increase in net finance expense is due to higher principal balance and higher interest rate on the notes payable offset by higher bank interest income earned due to higher cash balance and increasing interest rates.

## OUTLOOK

Net income is forecasted to March 31, 2019 to be \$2,955, a decrease of \$433 from the \$3,388 originally budgeted. The forecasted decrease in net income is mainly due to a significant tenant vacating 40,000 square feet in the first quarter, which is forecasted to remain vacant for the remainder of the year.

Capital expenditures are forecasted to be \$3,166 lower than the amount budgeted. The decrease is due to a delay in timing for a capital project planned in the Regina park.

# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated interim financial statements of 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 20, 2019.

On behalf of management,



**S.P. (VAN) ISMAN**

President and Chief Executive Officer



**BRENT SUKENIK**

Chief Financial Officer

# FINANCIAL REPORT

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME AND COMPREHENSIVE INCOME

(in thousands \$ – Unaudited)

	Note	December 31, 2018 3 months	December 31, 2017 3 months	December 31, 2018 9 months	December 31, 2017 9 months
<b>Revenue</b>					
Rental		\$ 9,446	\$ 9,535	\$ 29,580	\$ 29,549
Other		376	41	1,121	117
		9,822	9,576	30,701	29,666
<b>Expenses</b>					
	5				
Administration		966	916	2,837	2,814
Rental operations		7,531	7,296	23,883	22,607
		8,497	8,212	26,720	25,421
<b>Results before the following</b>		1,325	1,364	3,981	4,245
Finance income		86	75	261	164
Finance expenses		(531)	(434)	(1,552)	(1,312)
<b>Net finance expense</b>		(445)	(359)	(1,291)	(1,148)
<b>Net income</b>		880	1,005	2,690	3,097
<b>Other comprehensive income / (loss)</b>					
Items that are or may be reclassified to net income					
Debt retirement fund - market value adjustment		31	77	(24)	45
<b>Total comprehensive income / (loss)</b>		31	77	(24)	45
<b>Total comprehensive income</b>		\$ 911	\$ 1,082	\$ 2,666	\$ 3,142

(see accompanying notes)



# CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

(in thousands \$)

	At December 31, 2018 (unaudited)	At March 31, 2018 (audited)
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 13,444	\$ 16,932
Trade and other receivables	756	999
Inventory	133	107
Prepaid expenses	91	345
	14,424	18,383
Trade and other receivables	–	147
Property, plant and equipment	1,220	1,469
Investment property	173,807	174,637
Debt retirement fund	4,053	3,640
Other assets	809	758
	\$ 194,313	\$ 199,034
<b>Liabilities and Province's Equity</b>		
Current		
Trade and other payables	\$ 2,326	\$ 7,266
Notes payable	21,000	21,000
Dividends payable	660	1,291
Deferred revenue	1,173	953
	25,159	30,510
Finance lease obligation	81	117
Long-term debt	36,684	36,684
	61,294	67,311
<b>Province of Saskatchewan's Equity</b>		
Retained earnings	34,608	33,918
Accumulated other comprehensive loss	(69)	(45)
Equity advances	97,850	97,850
	132,389	131,723
	\$ 194,313	\$ 199,034

(see accompanying notes)

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

(in thousands \$ – Unaudited)

	Note	Equity advances	Accumulated other comprehensive loss	Retained earnings	Total equity
<b>Balance at March 31, 2017</b>		\$ 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 year		–	–	5,614	5,614
Other comprehensive income for the year		–	17	–	17
Dividends declared		–	–	(3,092)	(3,092)
Equity repayment		(8,837)	–	–	(8,837)
<b>Balance at March 31, 2018</b>		97,850	(45)	33,918	131,723
Net income for the period		–	–	2,690	2,690
Other comprehensive loss for the period		–	(24)	–	(24)
Dividends declared for the period		–	–	(2,000)	(2,000)
<b>Balance at Decemer 31, 2018</b>		\$ 97,850	\$ (69)	\$ 34,608	\$ 132,389

(see accompanying notes)

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

(in thousands \$ – Unaudited)

	Note	December 31, 2018 3 months	December 31, 2017 3 months	December 31, 2018 9 months	December 31, 2017 9 months
<b>Operating Activities</b>					
Net income		\$ 880	\$ 1,005	\$ 2,690	\$ 3,097
Non-cash adjustments:					
Amortization of property, plant and equipment		82	65	256	261
Amortization of investment property		2,241	1,938	6,735	5,872
Finance income		(86)	(75)	(261)	(164)
Finance expense		531	434	1,552	1,312
		3,648	3,367	10,972	10,378
Working capital adjustments:					
Trade and other receivables		899	(230)	243	(239)
Inventory		4	13	(26)	(34)
Prepaid expenses		982	862	254	185
Trade and other payables, excluding interest		(500)	(931)	(5,037)	(1,579)
Deferred revenue		848	(168)	220	232
Cash provided by operating activities		5,881	2,913	6,626	8,943
<b>Investing Activities</b>					
Purchase of property, plant and equipment		(22)	(24)	(34)	(105)
Purchase of investment property		(1,818)	(3,771)	(5,905)	(13,845)
Payments on long-term receivable		–	19	147	58
Interest received		63	47	187	103
Change in other assets		11	(1)	(51)	(82)
Cash used in investing activities		(1,766)	(3,730)	(5,685)	(13,871)
<b>Financing Activities</b>					
Net proceeds from notes payable	6	–	2,000	–	10,000
Debt retirement fund installments		–	–	(367)	(367)
Finance lease obligation paid	6	(15)	(12)	(39)	(36)
Interest paid		(406)	(278)	(1,421)	(1,182)
Dividends paid	6	(578)	(686)	(2,631)	(1,011)
Cash provided by / (used in) financing activities		(999)	1,024	(4,458)	7,404
<b>Net change in cash and cash equivalents during the period</b>					
		3,116	207	(3,488)	2,476
Cash and cash equivalents, beginning of period		10,328	13,115	16,932	10,846
<b>Cash and cash equivalents, end of period</b>		<b>\$ 13,444</b>	<b>\$ 13,322</b>	<b>\$ 13,444</b>	<b>\$ 13,322</b>

(see accompanying notes)

# NOTES TO CONSOLIDATED 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 taxes. As well, the Corporation is not subject to provincial capital 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 nine months ended December 31, 2018 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, 2018 audited consolidated financial statements.

The Board of Directors authorized the unaudited condensed consolidated interim financial statements for issue on February 20, 2019.

### 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 that comply with IFRS requires management to make judgements, 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, 2018 audited consolidated financial statements except for the following:

#### **APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS**

##### **IFRS 15, *Revenue from Contracts with Customers***

In May 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 are also required under the new standard. IFRS 15 was adopted retrospectively with the cumulative effect of the prior year impact recorded in opening retained earnings. Upon adoption, there was no material change to the Corporation's revenues as they are subject to the accounting standard in IAS 17, *Leases*.

## 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, 2018, and have not been applied in preparing these unaudited condensed consolidated interim financial statements.

### IFRS 16, Leases

IFRS 16 was issued in January 2016 and replaces 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. The Corporation will elect to not early adopt this standard. The Corporation has assessed its current operating leases where it is the lessee, and has determined that the impact of adopting this standard will be material to the consolidated statement of financial position.

## 5 OPERATING AND ADMINISTRATION EXPENSES

Total operating and administration expenses were as follows:

	<b>December 31, 2018</b> 3 months	<b>December 31, 2017</b> 3 months	<b>December 31, 2018</b> 9 months	<b>December 31, 2017</b> 9 months
Employee benefits	\$ 2,390	\$ 2,305	\$ 7,256	\$ 7,087
Utilities	1,312	1,235	3,952	3,823
Grants in lieu of property taxes	667	828	3,174	3,253
Amortization	2,323	2,003	6,991	6,133
Inventory consumed in the provision of services	152	149	474	459
Other	1,653	1,692	4,873	4,666
	<b>\$ 8,497</b>	<b>\$ 8,212</b>	<b>\$ 26,720</b>	<b>\$ 25,421</b>

## 6 ADDITIONAL FINANCIAL INFORMATION

Changes in liabilities arising from financing activities:

	Long-term debt	Notes payable	Finance lease obligation	Retained earnings	Total
<b>Balance at March 31, 2018</b>	\$ 36,684	21,000	\$ 117	\$ 33,918	\$ 91,719
Changes from financing cash flows:					
Repayment of lease obligation	-	-	(36)	-	(36)
Total changes from financing cash flows	-	-	(36)	-	(36)
Total equity related other changes	-	-	-	690	690
<b>Balance at December 31, 2018</b>	\$ 36,684	\$ 21,000	\$ 81	\$ 34,608	\$ 92,373

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