



## Land Title and Survey Authority of British Columbia

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### **Management's Discussion and Analysis**

Of Financial Condition and Results of Operations  
For the Quarter ended June 30, 2019

This management's discussion and analysis ("MD&A"), dated September 6, 2019, should be read in conjunction with the Land Title and Survey Authority of British Columbia ("LTSA") unaudited consolidated interim financial statements and related notes for the three months ended June 30, 2019 and 2018, and our audited consolidated financial statements and related notes for the year ended March 31, 2019 (the "consolidated financial statements"). Unless otherwise noted, the results reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars.

For purposes of this discussion, the LTSA refers to the Land Title and Survey Authority of British Columbia and its wholly-owned subsidiaries, LandSure Systems Limited ("LandSure") and Autoprop Software Limited ("Autoprop").

This report contains forward-looking statements, including statements regarding LTSA business and anticipated financial performance. Forward-looking statements are based on the opinions and estimates of management as of the date such statements are made, and represent management's best judgement based on facts and assumptions that management considers reasonable. These statements are subject to a number of risks and uncertainties that may cause actual results to differ materially from those contemplated in the forward-looking statements.

#### **Business Overview**

The LTSA was formed in 2005 as a publicly accountable, statutory corporation responsible for operating the land title and survey systems in BC. These systems provide the foundation for all real property business and ownership in the province. The LTSA's services are primarily accessed electronically by legal professionals, land surveyors, certain statutory officers and other professionals who provide property-related services to their clients.



The Province of BC establishes the mandate, responsibilities and performance standards of the LTSA in the Land Title and Survey Authority Act and through an Operating Agreement.

LTSA operations are funded through regulated fee revenue from land title and survey services, myLTSA services and property information services provided to customers. Regulated fees are established in compliance with the requirements set out in the Operating Agreement.

## Highlights

Total revenue for the quarter was \$10.3 million, less than prior year by \$0.2 million or 2.3%. The lower revenue was due to 10% lower transactional activity in the provincial real estate market that was partially offset by a 8% fee increase on April 1, 2019. Cost of revenue was \$6.8 million which was less than prior year by \$0.3 million or 4.4%. This is attributable to a change in accounting for building leases where implicit lease interest is now included in other expense. Total operating expense for the quarter was \$3.1 million, greater than prior year by 40.8%. The key factors that contributed to this increase were: \$0.3 million higher expenditures in research and development to develop new products and services for customers; \$0.3 million higher costs in policy and regulation to support enhanced statutory activity; and \$0.2 million greater costs in general and administration due to higher human resources activity to support the growth of the organization.

We spent \$1.5 million in the quarter on capital projects of which \$1.2 million was to improve our combined LandSure and Autoprop office facilities. The balance of \$0.3 million was invested in software development for the Web Filing project, which continues our commitment to improve customer experience through new and enhanced services on myLTSA, including electronic search and filing improvements. The Web Filing project is expected to complete in 2020 at a total cost of \$10.3 million.



## Results

The following table sets forth certain consolidated statement of operations data, as well as consolidated statement of financial position data, expressed in dollars, as at June 30, 2019 and 2018.

Quarter ended June 30	2019	2018
Revenue		
Examination services	<b>\$4,789,739</b>	\$5,100,174
Information products and subscriptions	<b>3,954,045</b>	3,748,153
Service fees	<b>1,570,776</b>	1,709,283
	<b>10,314,560</b>	10,557,610
Cost of revenue:		
Cost of examination services	<b>4,321,891</b>	4,606,798
Cost of information products and subscriptions	<b>1,576,424</b>	1,576,435
Cost of service fees	<b>888,159</b>	919,095
	<b>6,786,473</b>	7,102,328
Gross income	<b>3,528,087</b>	3,455,282
Operating expenses		
Research and development	<b>715,871</b>	385,917
Policy and regulation	<b>1,055,510</b>	709,911
General and administration	<b>1,355,637</b>	1,124,719
	<b>3,127,018</b>	2,220,547
Operating income	<b>401,069</b>	1,234,735
Other income (expenses):		
Lease interest	<b>(139,618)</b>	(457)
Bank charges, interest, and investment fees	<b>(34,263)</b>	(29,737)
Investment income	<b>389,148</b>	305,416
	<b>215,267</b>	275,222
Income and comprehensive income before taxes	<b>616,336</b>	1,509,957
Income taxes	<b>43,831</b>	65,759
Net income and comprehensive income	<b>\$572,505</b>	\$1,444,198
Total assets	<b>\$116,386,762</b>	\$102,800,177
Total liabilities	<b>\$14,040,506</b>	\$12,371,173
Total non-current liabilities	<b>\$13,305,777</b>	\$1,961,030
Total equity	<b>\$89,040,479</b>	\$88,467,974



The following table sets forth certain consolidated statement of operations data expressed as a percentage of revenue for the same fiscal periods.

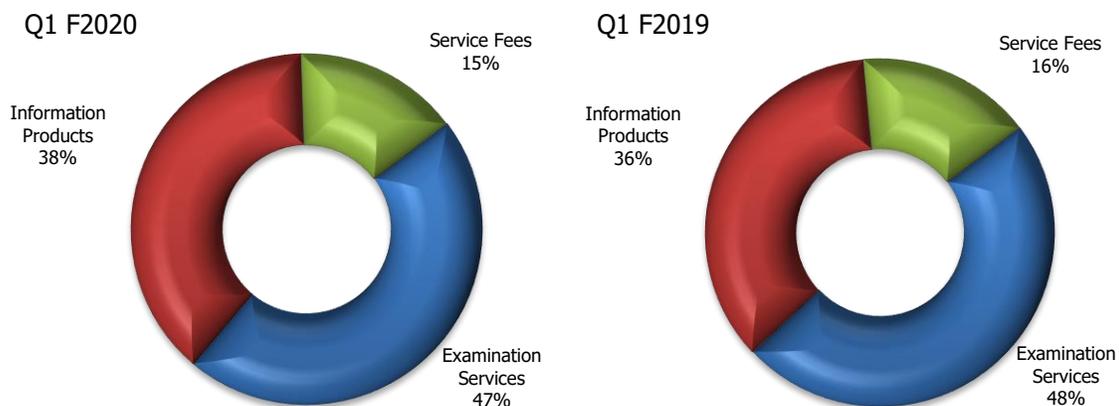
Quarter ended June 30	2019	2018
Revenue		
Examination services	<b>46.4%</b>	48.3%
Information products and subscriptions	<b>38.3%</b>	35.5%
Service fees	<b>15.3%</b>	16.2%
	<b>100.0%</b>	100.0%
Cost of revenue:		
Cost of examination services	<b>41.9%</b>	43.6%
Cost of information products and subscriptions	<b>15.3%</b>	14.9%
Cost of service fees	<b>8.6%</b>	8.8%
	<b>65.8%</b>	67.3%
Gross income	<b>34.2%</b>	32.7%
Operating expenses		
Research and development	<b>6.9%</b>	3.7%
Policy and regulation	<b>10.2%</b>	6.7%
General and administration	<b>13.2%</b>	10.6%
	<b>30.3%</b>	21.0%
Operating income	<b>3.9%</b>	11.7%
Other income (expenses):		
Lease interest	<b>(1.4%)</b>	0.0%
Bank charges, interest, and investment fees	<b>(0.3%)</b>	(0.3%)
Investment income	<b>3.8%</b>	2.9%
	<b>2.1%</b>	2.6%
Income and comprehensive income before taxes	<b>6.0%</b>	14.3%
Income taxes	<b>0.4%</b>	0.6%
Net income and comprehensive income	<b>5.6%</b>	13.7%



## Revenue

LTSA revenue sources consist of examination services to ensure that applications and plans are submitted in accordance with the rules and regulations of various provincial statutes and acts; information products include title, document and plan images, certifications, document scanning and subscription services; and service fees for electronic processing of land title and survey transactions through the myLTSA electronic portal.

### Revenue by Source

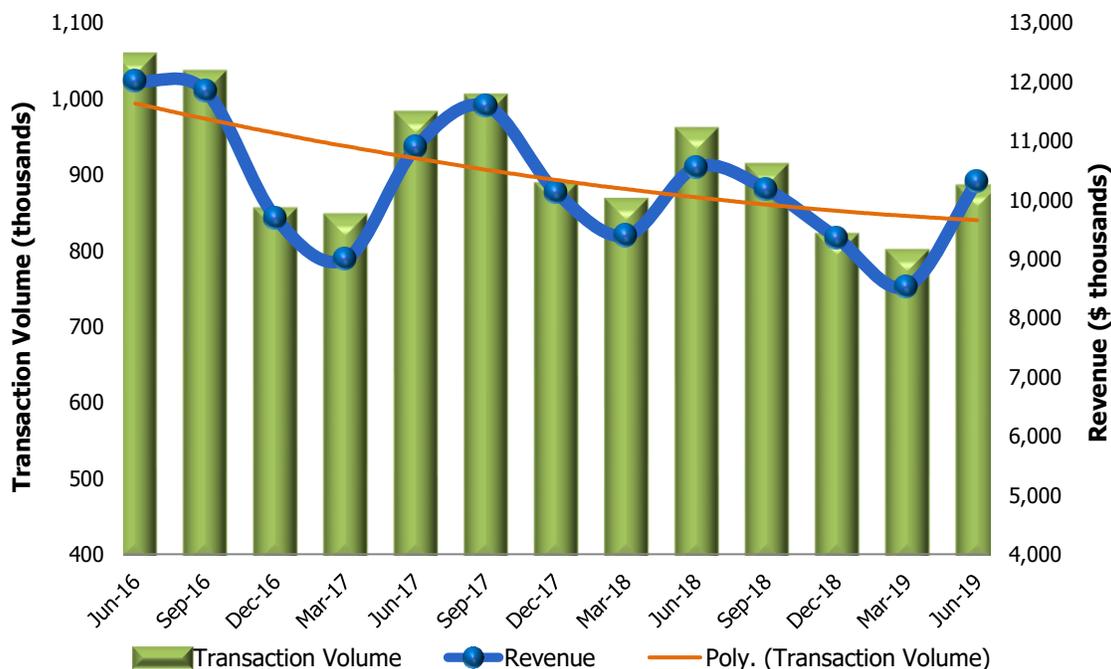


Quarter ended June 30	2019	2018
Examination services	<b>\$4,789,739</b>	\$5,100,174
Information products and subscriptions	<b>3,954,045</b>	3,748,153
Service fees	<b>1,570,776</b>	1,709,283
	<b><u>\$10,314,560</u></b>	<u>\$10,557,610</u>

Total consolidated revenue for the quarter was \$10.3 million, less than prior year by \$0.2 million or 2.3%. Revenues were lower than the same period last year, reflecting lower transaction volumes due to a cooling in the real estate market, partially offset by an 8% fee increase on April 1, 2019 for statutory products and services.



Revenues for the quarter continued the downward trend of lower transaction volumes we have seen since 2016. This year’s revenue also reflects seasonality where we typically experience a busy period from April to September and then begin a slowdown in the third and fourth quarters. The graph below plots the transaction volumes and outlines the 2016 to 2019 downward trend and the impact of seasonality.



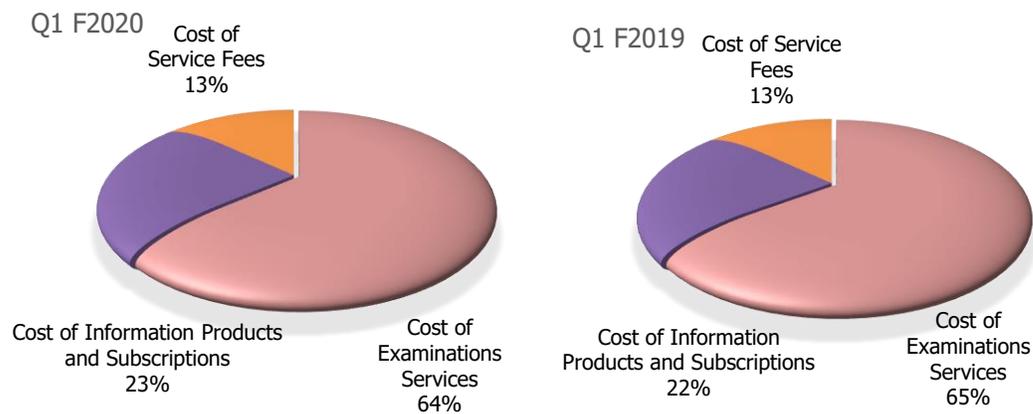
The LTSA’s strategy is to develop new sources of revenue to support customers with interests in land information. Autoprop brought in \$0.2 million of revenue this quarter which partially offset the reduced revenues from the declining real estate market. The Condo and Strata Assignment Integrity Register (“CSAIR”), released in February, added an additional \$0.2 million of revenue in its second quarter of operation.



## Cost of revenue

Cost of revenue for the quarter was \$6.8 million, \$0.3 million or 4.4% less than the same period last year of \$7.1 million.

### Cost of Revenue



Cost of examination services was \$ 4.3 million, \$0.3 million or 6.2% less than the same period last year. This reduction was due to lower transaction volumes, requiring less staff and other resources, as well as the full amortization of the core land title system in September 2018.

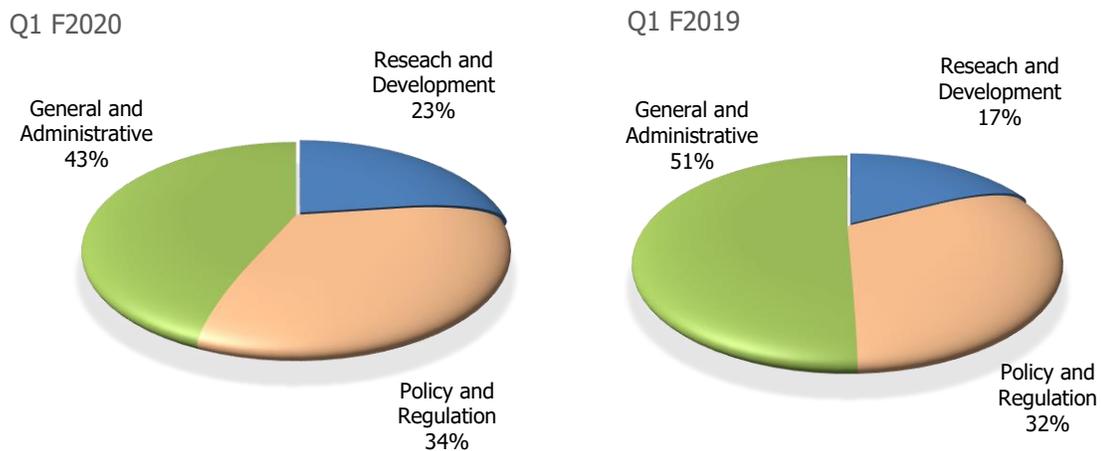
Cost of information products was \$1.6 million, approximately the same as last year. The cost of information products included Autoprop expenses of \$0.2 million which were offset by reduced spending in other areas.

The cost of service fees was \$ 0.9 million, which was at the same level as in 2018. Spending patterns were consistent with last year. As with the cost of information products the cost of service fees does not vary significantly with transaction volumes.

## Operating Expenses

Operating expenses for the quarter were \$3.1 million, \$0.9 million or 40.8% greater than in 2018.

### Operating Expenses



Research and development costs were \$0.7 million, \$0.3 million or 85.5% greater than in the same period last year. We are investing in research and development to create new products for our customers and to diversify our sources of revenue.

Policy and regulation costs were \$1.1 million, \$0.3 million or 48.7% greater than in 2018. The increase reflects greater focus on the statutory and policy work required by our organization. In addition, we are continuing to invest significant resources in the restoration, conservation and archival storage of our historical collections of land title and survey documents.

General and administrative expense was \$ 1.4 million, \$0.2 million or 20.5% greater than the same period last year. This was due to increased staffing to support the growth of the organization and for professional services in support of organizational redesign.



## Gross Income

LTSA's gross income was \$3.5 million representing a 34.2% operating margin, up slightly from the 32.7% earned in the first quarter of the last fiscal year. The gross margin by revenue category was as follows:

### Gross Margins by Revenue

Quarter ended June 30	2019	2018
Total LTSA	<b>34.2%</b>	34.7%
Examination services	<b>9.8%</b>	9.7%
Information products and subscriptions	<b>60.1%</b>	57.9%
Service fees	<b>43.5%</b>	46.2%

Information products and subscriptions margin increased by 2.2% which is attributable to the inclusion of Autoprop. Examination services and Service fees are less than the same period last year due to reduced transaction volumes.

## Net Income and Comprehensive Income

Overall, net income and comprehensive income totalled \$0.6 million or 5.6% of revenue, down from \$1.4 million or 13.7% of revenue recorded in the same period last year. The decrease of \$0.9 million was primarily due to 2.3% lower revenue and 4.4% higher cost of revenue and 40.8% higher operating expenses. We expect to be in a consolidated loss position in the 2019 - 2020 fiscal period as we anticipate the market downturn to continue while we proceed with our operational redesign with increased staffing levels to support our strategic initiatives and a more customer-centric organization.



## Liquidity and Capital Resources

### Sources and Uses of Cash

Cash, cash equivalents and short-term investments balance was \$70.3 million on June 30, 2019 (June 30, 2018 - \$70.0 million), of which \$0.2 million (June 30, 2018 - \$0.2 million) consisted of cash collected on behalf of the Province of BC and other parties. The cash owing to these parties is remitted the following business day.

The remaining \$70.1 million (June 30, 2018 - \$69.8 million) represents cash, cash equivalents and short-term investments available to the LTSA. Net LTSA liabilities (total liabilities less funds held for customers, trade and other receivables and prepaid expenses) totalled \$12.9 million (June 30, 2018 - \$11.3 million) at June 30, 2019 which, when combined with the \$6.0 million (June 30, 2018 - \$6.0 million) allocated to the Assurance Fund, left \$63.2 million (June 30, 2018 - \$64.5 million) cash available for reinvestment in LTSA's business.

### Cash from Operating Activities

The LTSA's primary source of cash derives from operating activities. Cash from operations for this quarter totalled \$2.5 million compared to \$2.8 million for the same period last year. The decrease in cash from operations is primarily due to the decline in revenues.

### Cash from Financing Activities

LTSA paid \$0.6 million this quarter for the repayment of lease obligations and lease interest (June 30, 2018 - \$0.0 million). This is attributed to a reclassification of our operating leases due to our adoption of IFRS 16 on April 1, 2019.

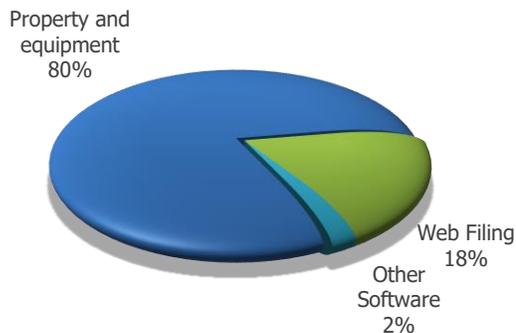
### Cash from Investing Activities

LTSA transfers excess cash into an investment portfolio that is governed by LTSA's investment strategy. Cash is also used to purchase property and equipment and invest into capital projects that will either be used to enhance current operations or to provide additional service offerings to our customers.

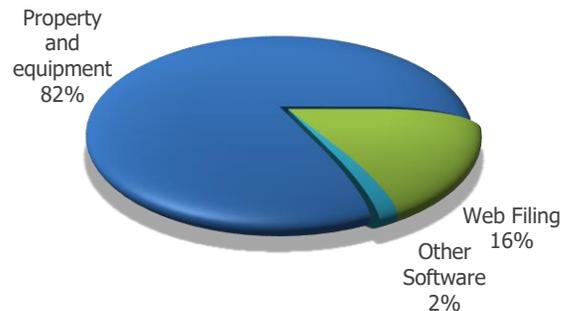


## Capital Investments

Q1 F2020



Q1 F2019



Quarter ended June 30 (in millions)	2019	2018
Property and equipment	<b>\$1.2</b>	\$1.9
Web Filing	<b>0.3</b>	0.4
	<b><u>\$1.5</u></b>	<u>\$2.3</u>

LTSA continued with our commitment to growth by investing \$ 1.2 million to reconfigure the LandSure office to support research and development activities and to integrate the Autoprop team.

## Assurance Fund

The Assurance Fund has remained at \$6.0 million since March 31, 2013 by resolution of the Board of Directors. The result of an independent actuarial analysis of the program in 2017 and the small number of Assurance Fund claims supports the LTSA's belief that this continues to be an appropriate fund balance. The fund is assessed on an annual basis and adjusted to reflect changing market conditions as well as transaction volumes.



## Leases

LTSA adopted IFRS 16 Leases on April 1, 2019. This standard requires LTSA to restate all leases greater than twelve months as a right of use asset with a corresponding lease liability, less lease incentives. The adoption of this standard increased LTSA's assets by \$13.2 million and lease liabilities by \$15.2 million.

## Off-Balance Sheet Arrangements

The LTSA has no off-balance sheet arrangements.

## Outlook

The June 2019 BC Real Estate Association's forecast is for a 9.0% decrease in 2019 unit sales volumes from 2018 with a rebound in 2020. They also forecast employment will grow by 2.2% and real GDP in BC will expand at a moderate pace of 2.5%.

In July 2019 the Business Council of British Columbia indicated a more pessimistic view expecting slowing economic growth in the province and have downgraded their forecast to 2.0% real GDP growth for 2019, down from 2.2% in the previous Economic Review and Outlook.

LTSA's current forecast is for revenue to be about 4% higher than last fiscal year due to the 8.0% fee increase, strong revenue from Autoprop's real estate board sales initiatives and new revenues from CSAIR filings. These factors will be offset in part by lower volumes of applications. Total expenses are expected to be higher than in the first quarter as we increase spending on research and development in line with our growth strategy. For the full fiscal year we expect operating expenses to be about 18% greater than last year which would put us in an expected loss position of approximately \$2.3 million for the year.



## **Risk and Uncertainty**

### **Critical Accounting Estimates**

LTSA's financial statements are prepared in accordance with IFRS. These accounting principles require management to make certain estimates, assumptions and judgements. Management believes that these estimates, assumptions and judgements upon which we rely are reasonable based upon information available to us at the time. The estimates, assumptions and judgements made can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates and actual results, the financial statements of the LTSA would be affected.

### **Public Service Pension Plan**

LTSA employees are members of the Public Service Pension Plan (the "Plan"), a defined benefit, multi-employer pension plan. The most recent Plan valuation, as at March 31, 2017, indicated a funding surplus of \$1,896 million in the Basic Account. The next plan valuation will be assessed as at March 31, 2020, with results available in early 2021.

LandSure Systems and Autoprop employees are members of a group registered retirement savings plan to which the company contributes.

### **Impairment of Long Lived Assets**

The LTSA regularly reviews the carrying value of property, equipment and intangible assets, and continually makes estimates regarding future cash flows and other factors to determine the fair value of the respective assets. If these estimates or their related assumptions change in the future, the LTSA may be required to record impairment charges for these assets. There are no impairment adjustments at this time.

Please refer to the consolidated financial statements which contain additional information regarding our accounting policies and other disclosures required under IFRS.