

Management's Discussion and Analysis

Of Financial Condition and Results of Operations
For the Quarter ended June 30, 2020

This management's discussion and analysis ("MD&A"), dated September 24, 2020, 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 quarter ended June 30, 2020, (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, realtors 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*, through an Operating Agreement with the Ministry of Forests, Lands and Natural Resources Operations and through a Master Services Agreement with the Ministry of Finance .

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. Administrative fees are set by the LTSA's Board of Directors.

Highlights

Total revenue for the quarter was \$9.8 million, less than the prior year by \$0.6 million or 5.4%. The lower revenue resulted from a downturn in the British Columbia real estate market sales volumes due to the effects of the novel coronavirus (“COVID-19”). We expect the COVID-19 pandemic to continue to negatively impact our revenues throughout the balance of this fiscal year.

Cost of revenue was \$6.4 million which was less than prior year by \$0.4 million or 5.4%. Our operating margin remained consistent with the same quarter last year at 34.2%.

Total operating expenses for the quarter were \$3.2 million, just 1.8% higher than in the prior year. Higher spending on research and development, reflecting our focus on investing in the creation of new products and services, and general and administrative expense was partially offset by reduced spending in policy and regulation. We will continue to control operating expenses to ensure that their growth is in line with our revenues.

Net income and comprehensive income was \$1.2 million, an increase of \$0.6 million or 103.0% from the same period last year. This increase was primarily due to a \$1.0 million increase in investment income reflecting a recovery in the investment portfolio’s value since March 31, 2020.

We spent \$2.9 million in the quarter on capital projects of which \$0.9 million was spent on leasehold improvements to our New Westminster and LandSure offices and upgrades to the Victoria historical records vault. We also spent \$0.5 million on the Web Filing system which is expected to complete in the second quarter at a total cost of \$10.3 million. Development continues on the Land Owner Transparency Registry (“LOTR”) system with a capital cost of \$1.0 million this quarter. Development of this system is expected to be complete by late 2020. We also incurred \$0.5 million on other software development projects.

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, 2020 and 2019.

Quarter ended June 30	2020	2019
Revenue:		
Examination services	\$4,652,203	\$4,789,739
Information products and subscriptions	3,595,128	3,954,045
Service fees	1,514,465	1,570,776
	<u>9,761,796</u>	<u>10,314,560</u>
Cost of revenue:		
Cost of examination services	4,400,360	4,321,891
Cost of information products and subscriptions	1,265,776	1,576,424
Cost of service fees	754,860	888,158
	<u>6,420,996</u>	<u>6,786,473</u>
Gross income	<u>3,340,800</u>	<u>3,528,087</u>
Operating expenses:		
Research and development	893,746	715,871
Policy and regulation	811,057	1,055,510
General and administrative	1,478,381	1,355,637
	<u>3,183,184</u>	<u>3,127,018</u>
Operating income	<u>157,616</u>	<u>401,069</u>
Other income (expenses):		
Lease interest	(130,328)	(139,618)
Bank charges and investment fees	(41,518)	(34,413)
Investment income	1,397,695	389,148
(Loss) gain on disposal of property and equipment	(11,549)	150
	<u>1,214,300</u>	<u>215,267</u>
Income and comprehensive income before income taxes	<u>1,371,916</u>	<u>616,336</u>
Income taxes	<u>209,494</u>	<u>43,831</u>
Net income and comprehensive income	<u>\$1,162,422</u>	<u>\$572,505</u>
	June 30, 2020	March 31, 2020
Total assets	\$116,055,227	\$115,533,302
Total liabilities	\$25,105,692	\$25,746,189
Total non-current liabilities	\$11,603,911	\$11,867,101
Total equity	\$90,949,535	\$89,787,113

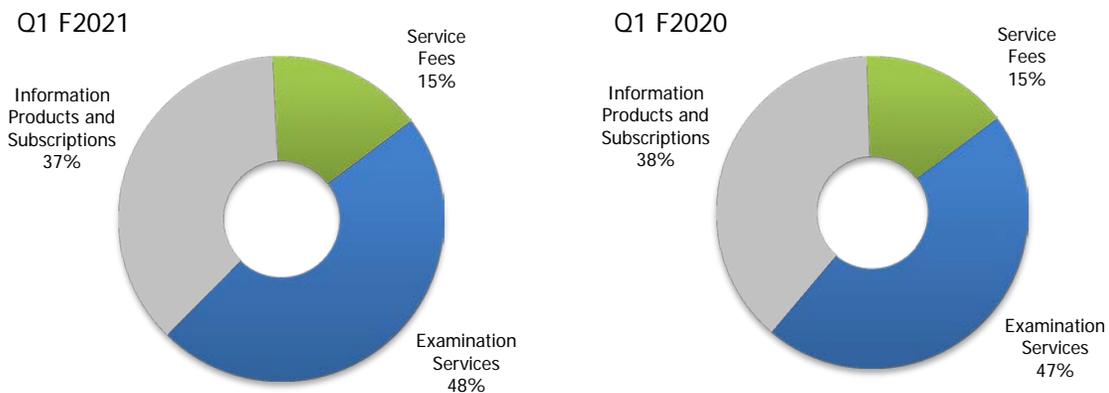
The following table sets forth certain consolidated statement of operations data expressed as a percentage of revenue for the same fiscal periods.

Quarter ended June 30	2020	2019
Revenue:		
Examination services	47.7%	46.4%
Information products and subscriptions	36.8%	38.3%
Service fees	15.5%	15.2%
	<u>100.0%</u>	<u>100.0%</u>
Cost of revenue:		
Cost of examination services	45.1%	41.9%
Cost of information products and subscriptions	13.0%	15.3%
Cost of service fees	7.7%	8.6%
	<u>65.8%</u>	<u>65.8%</u>
Gross income	34.2%	34.2%
Operating expenses:		
Research and development	9.2%	6.9%
Policy and regulation	8.3%	10.2%
General and administrative	15.1%	13.1%
	<u>32.6%</u>	<u>30.3%</u>
Operating income	1.6%	3.9%
Other income (expenses):		
Lease interest	(1.3%)	(1.4%)
Bank charges and investment fees	(0.4%)	(0.3%)
Investment income	14.3%	3.8%
(Loss) gain on disposal of property and equipment	(0.1%)	0.0%
	<u>12.5%</u>	<u>2.1%</u>
Income and comprehensive income before income taxes	14.1%	6.0%
Income tax expense	2.1%	0.4%
Net income and comprehensive income	<u>12.0%</u>	<u>5.6%</u>

Revenue

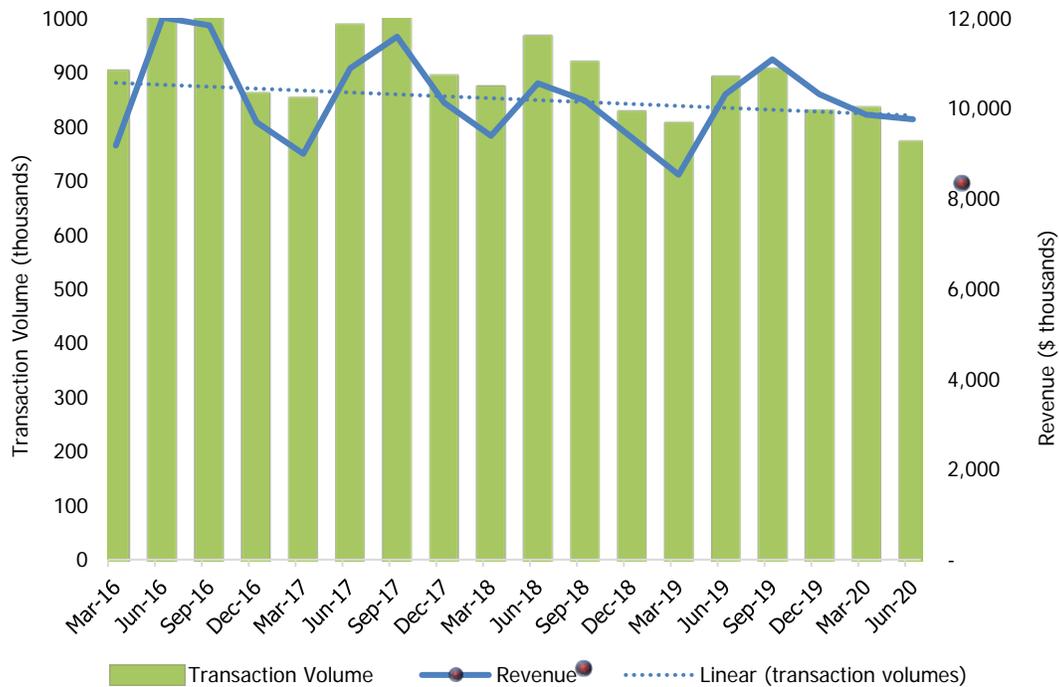
LTSA revenue sources consist of examination services to ensure that applications and plans are submitted in accordance with the rules and regulations of various provincial statutes and acts; information products include title, document and plan images, certifications, document scanning, and subscription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

Revenue by Source



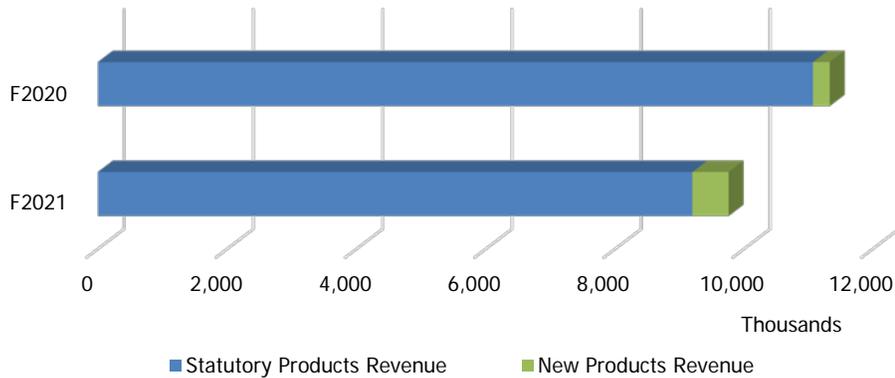
Total consolidated revenue for the quarter was \$9.8 million, less than the same period last year by \$0.6 million or 5.4%. Revenues were less than last year due to decreased transaction volumes as a result of the COVID-19 pandemic. This volume reduction was partially offset by a 2% fee increase effective April 1, 2020 and the introduction of our Property Tax Deferral (“PTD”) software as a service product. Volumes this quarter for our statutory services were 13.7% less than the same period last year.

Revenues for the quarter reflect the continued downward trend in transaction volumes we have seen since 2016. The chart shows revenue and transaction volumes over the past four years. The impact of seasonality can also be seen with the June and September quarters being much busier than the fall and winter.



The LTSA’s strategy of developing new sources of revenue to support customers with interests in land information continues to be successful with three new products launched over the last 21 months. Autoprop, acquired in October 2018, earned \$0.3 million of revenue this quarter. The Condo and Strata Assignment Integrity Register (“CSAIR”), released in February 2019, earned \$0.2 million and the PTD service launched in May 2020 had revenue of \$0.1 million. Total new product revenue for this quarter was \$0.6 million, a 116.5% increase from the same period last year.

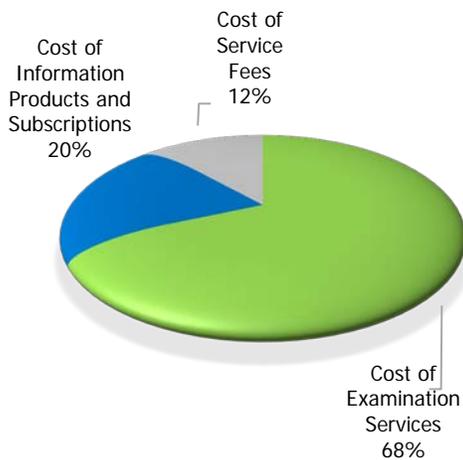
Statutory and New Products Revenue



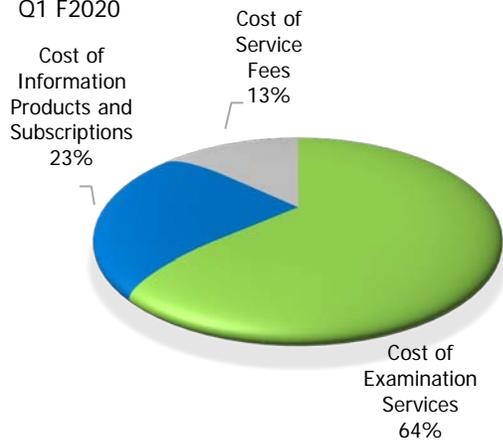
Cost of Revenue

Cost of revenue for the year was \$6.4 million, \$0.4 million or 5.4% less than last year's \$6.8 million. The decrease reflects savings on office, business and travel expenses due to the deferral of information technology sustainment projects, new hiring, and travel restrictions as a result of COVID-19.

Q1 F2021



Q1 F2020



Gross Income

LTSA's gross income was \$3.3 million representing a 34.2% operating margin, the same margin as earned in the prior year. The gross margin by revenue category was as follows:

Gross Margins by Revenue Type

Quarter ended June 30	2020	2019
Total LTSA	34.2%	34.2%
Examination services	5.4%	9.8%
Information products and subscriptions	64.8%	60.1%
Service fees	50.2%	43.5%

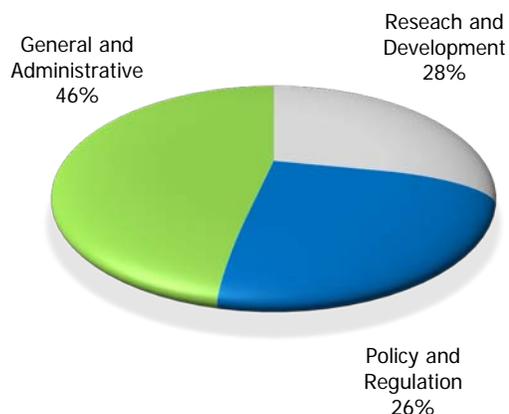
Examination services margins decreased due to an increase in amortization for the Web Filing system, with its initial release in November 2019. Information products and subscriptions margin increased due to higher volumes for Autoprop and CSAIR, the introduction of PTD, and the 2% fee increase effective on April 1, 2020. Service fees margin increased due to a reduction in amortization when the myLTSA portal software was fully amortized in April 2020.

Operating Expenses

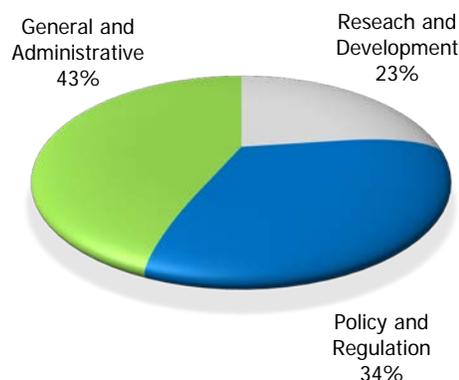
Operating expenses for the year were \$3.2 million, \$0.1 million or 1.8% greater than in 2019. This was due to increased expenses in research and development offset by lower costs for policy and regulation.

Operating Expenses (continued)

Q1 F2021



Q1 F2020



Research and development costs were \$0.9 million, \$0.2 million or 24.8% more than the same period last year. The increase was due to our strategic initiative to invest in research and development to develop new products and services and to improve operational efficiency.

Policy and regulation costs were \$0.8 million, \$0.2 million or 23.2% less than in 2019. This decrease was primarily due to the settlement of an Assurance Fund claim.

General and administrative expenses were \$1.5 million, \$0.1 million or 9.1% greater than last year. The increase reflects work we have underway to improve customer satisfaction and our communications with stakeholders.

Other Income (Expenses)

Our investment portfolio earned \$1.4 million, up \$1.0 million or 259.2% from last year. This was due to a rebound in global market conditions from last quarter. Our investment portfolio is conservative with 87% of our investments held in fixed income securities and money market funds.

Net Income and Comprehensive Income

Overall, net income and comprehensive income totalled \$1.2 million or 12.0% of revenue, up \$0.6 million or 103.0% from 2019. This was due to \$1.0 million higher investment

income offset by a \$0.2 million decrease in operating income and a \$0.2 million increase in income tax expense.

Liquidity and Capital Resources

Sources and Uses of Cash

Cash, cash equivalents, and short-term investments balances were \$67.3 million on June 30, 2020 (March 31, 2020: \$67.4 million), of which \$0.2 million (March 31, 2020: \$0.2 million) consisted of cash collected on behalf of the Province of BC and other parties. The cash owing to these parties was remitted the following business day.

The remaining \$67.1 million (March 31, 2020: \$67.2 million) represents cash, cash equivalents, and short-term investments readily available to the LTSA. Net LTSA current liabilities (total current liabilities less funds held for customers, trade and other receivables and prepaid expenses) totalled \$9.0 million (March 31, 2020: \$9.0 million), which, when combined with the \$6.0 million (March 31, 2020: \$6.0 million) allocated to the Assurance Fund, leaves \$52.1 million (March 31, 2020: \$52.2 million) of cash available for reinvestment in LTSA's business.

Cash Flow from Operating Activities

The LTSA's primary source of cash derives from operating activities. Cash from operations for this quarter totalled \$2.5 million, almost the same as the quarter last year.

Cash Flow from Financing Activities

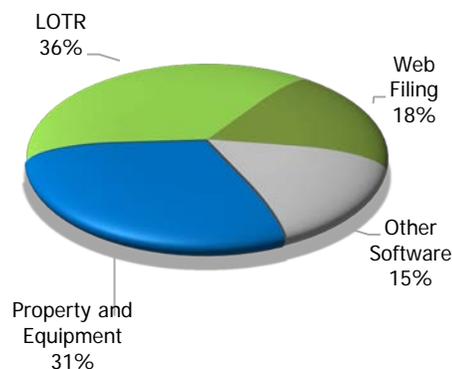
LTSA repaid \$0.5 million this quarter for lease obligations and incurred \$0.1 million of related lease interest. The repayment of lease obligations and lease interest are consistent with the prior year.

Cash Flow from Investing Activities

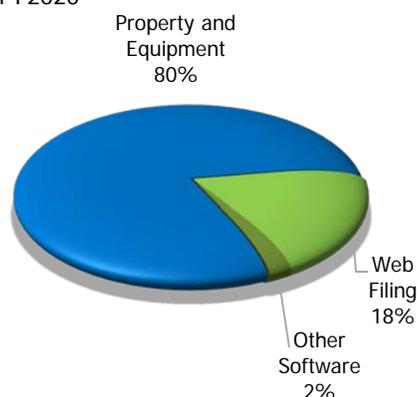
LTSA transfers excess cash into an investment portfolio that is governed by our investment policy. We invested net \$1.7 million of cash in marketable securities during the quarter. Cash was also used to purchase property and equipment and invest in software systems that will either enhance current operations or provide additional service offerings to our customers. \$2.0 million of cash was invested in capital projects during the quarter.

Capital Investments

Q1 F2021



Q1 F2020



Quarter ended June 30 (in millions)	2020	2019
Property and equipment	\$0.9	\$1.9
Web Filing	0.5	0.4
LOTR	1.0	-
Other software	0.5	-
	\$2.9	\$2.3

The Web Filing project will modernize the customer interface to the land title system and was completed in July 2020. We also continue with the development of the LOTR system which is a major project to build and operate a registry under the *Land Owner Transparency Act* on behalf of the province. Filing services to the registry will be available by late 2020 with search services becoming available in 2021. Total cost to build the LOTR system is estimated to be approximately \$7.5 million.

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.

Off-Balance Sheet Arrangements

The LTSA has no off-balance sheet arrangements.

Outlook

We continue with our strategy of developing new products and services for our customers with interests in land information and will introduce at least two new products this fiscal year for the Province of British Columbia: the automation of the Property Tax Deferral system in May 2020 and LOTR. In addition, we will continue with Autoprop's marketing of enhanced products and services for real estate professionals.

Since March 2020 LTSA, along with the Province of British Columbia, has invoked provincial guidelines for remote working and social distancing in response to the global pandemic of the outbreak of COVID-19. Land registry has been designated as an essential service by the province and we are continuing to operate with full capacity.

These safety guidelines impacted revenue in the first quarter as we experienced a 13.7% decline in the transaction volumes of our statutory products and services. This was better than anticipated however as reports published by Royal Bank of Canada and the BC Real Estate Association in June forecast a contraction in the BC real estate market of between 21% – 30% in the April to June period. Early indications suggest that our second quarter may improve with BC Multiple Listing Service sales up 26.6% in July compared to 2019. Despite this improvement the market outlook remains highly uncertain for 2020 and 2021.

The launch of the Land Owner Transparency Registry has been delayed to fall 2020. The launch is dependent upon the *Land Owner Transparency Act* being brought into force by the legislature and its associated regulations. Due to COVID-19, changes to the province's legislative calendar resulted in this delay.

The LTSA is in a strong financial position with available cash totaling \$67.3 million at June 30, 2020. We are of the opinion that our cash reserves are sufficient to manage the COVID-19 financial risk in the 2020 – 2021 fiscal 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 plan underwent a valuation assessment on March 31, 2020 and results will be 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.