



Land Title and Survey Authority of British Columbia

Management's Discussion and Analysis

Of Financial Condition and Results of Operations
For the Quarter ended September 30, 2017

This management's discussion and analysis ("MD&A"), dated November 17, 2017, should be read in conjunction with the Land Title and Survey Authority of British Columbia ("LTSA") audited consolidated financial statements and related notes for the year ended March 31, 2017 (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 subsidiary, LandSure Systems Ltd.

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 and myLTSA services provided to customers. Fees are established in compliance with requirements set out in the Operating Agreement.

Highlights

ParcelMap BC ("PMBC"), the LTSA's multi-year electronic mapping project of all active titled parcels and surveyed provincial Crown land parcels, became operational with complete province-wide coverage during the quarter. The cost of the entire project was \$19.2 million with \$0.2 million spent this fiscal year. With all cadastral fabric components of PMBC operational this quarter, we have incurred \$0.5 million in amortization expense this quarter and \$1.1 million for the year to date.

The multi-year project, Advanced Customer Enhancements ("Project ACE"), continues the LTSA's commitment to improve customer experience through new and enhanced services on myLTSA, including electronic search and filing improvements. We have spent \$4.1 million to date on this project of which \$1.3 million was spent this quarter. To date, we have capitalized \$2.5 million and expensed \$1.6 million and we plan to complete this project in 2019 at a total cost of \$10.3 million.

Total revenues were \$11.6 million for the quarter ended September 30, 2017, a decrease of \$0.2 million or 2.1% compared to \$11.8 million for the same period in the prior year. The decrease in revenues was due to a 2.8% decrease in total transaction volumes from the prior year due to lower transactional activity in the provincial real estate market.

Net income for this quarter was \$3.6 million, a decrease of \$0.8 million or 18.4% compared to the same period in the prior year. The key drivers of increased operating expense of \$0.6 million were increases in salary and benefit costs of \$0.3 million, and increased amortization for PMBC assets placed in service in June 2017 of \$0.2 million.

Results

This quarter's net income decrease of \$0.8 million from 2016 arose from \$0.4 million lower earnings in the core business and \$0.5 million lower earnings in the PMBC segment offset by \$0.1 million higher earnings from the myLTSA business.

Cash flows from operating activities decreased from \$6.9 million in 2016 to \$5.3 million in 2017. Investments in property, equipment and intangible assets decreased from \$1.6 million to \$0.4 million in the same period, all financed from operations. The decrease in investment is primarily due to the completion of the initial build of PMBC last quarter.

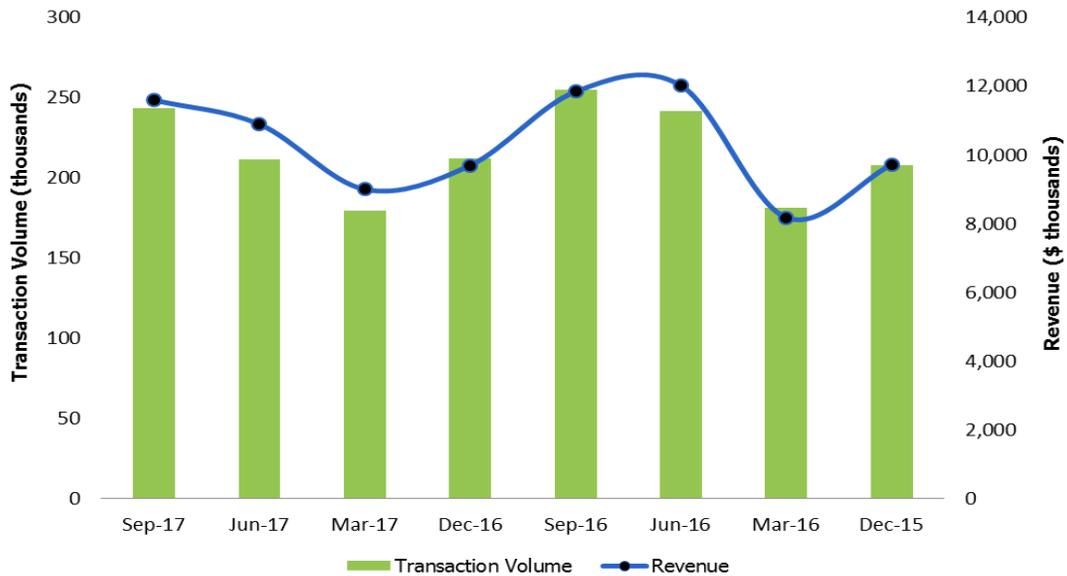


The following table sets forth certain consolidated statement of operations data, as well as consolidated statement of financial position data, expressed in dollars, as at September 30, 2017 and 2016

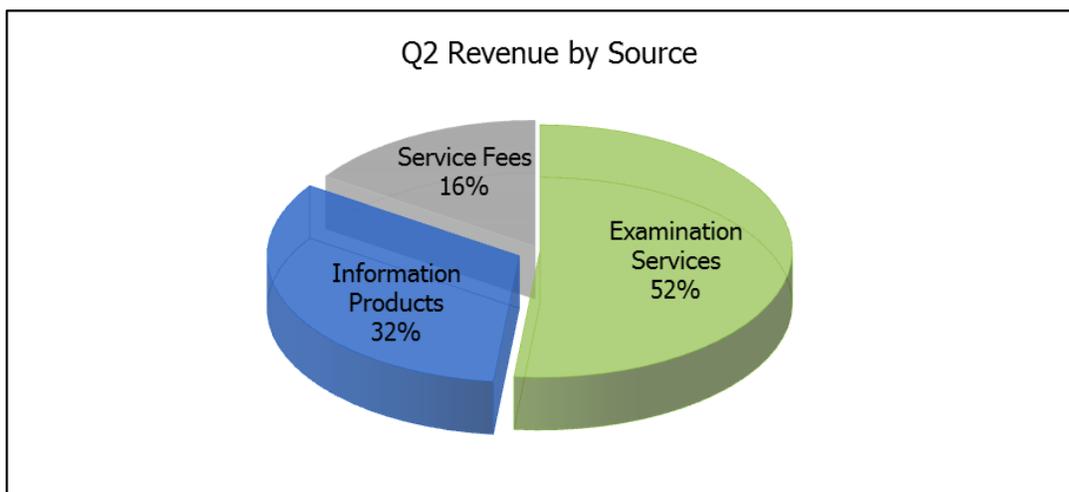
	2017	2016
Revenue	\$11,591,273	\$11,841,936
Expenses:		
Salaries and benefits	3,651,578	3,329,316
Information services	880,182	819,226
Office and business expenses	395,484	397,018
Building occupancy	819,171	803,662
Professional fees	374,319	372,266
Amortization	1,834,821	1,660,999
	7,955,555	7,382,487
Operating income	3,635,718	4,459,449
Other income (expenses):		
Bank charges, interest and investment fees	(28,258)	(28,700)
Interest income	138,448	140,367
(Loss) gain on disposal of property and equipment	(275)	760
	109,915	112,427
Income and comprehensive income before taxes	3,745,633	4,571,876
Income tax expense	161,609	180,202
Net income and comprehensive income	\$3,584,024	\$4,391,674
Operating margin	31.4%	37.7%

	September 30, 2017	March 31, 2017
Total assets	\$98,370,342	\$91,622,737
Total liabilities	\$15,236,502	\$14,812,875
Total long-term liabilities	\$858,834	\$658,482
Total equity	\$83,133,840	\$76,809,862

The following graph illustrates the seasonality of the LTSA’s revenue and shows the relationship of transaction volumes and revenue over the most recent eight quarters. In peak volume periods, the automated systems process over 50% of all transactions allowing effective management of LTSA resources.



Revenue



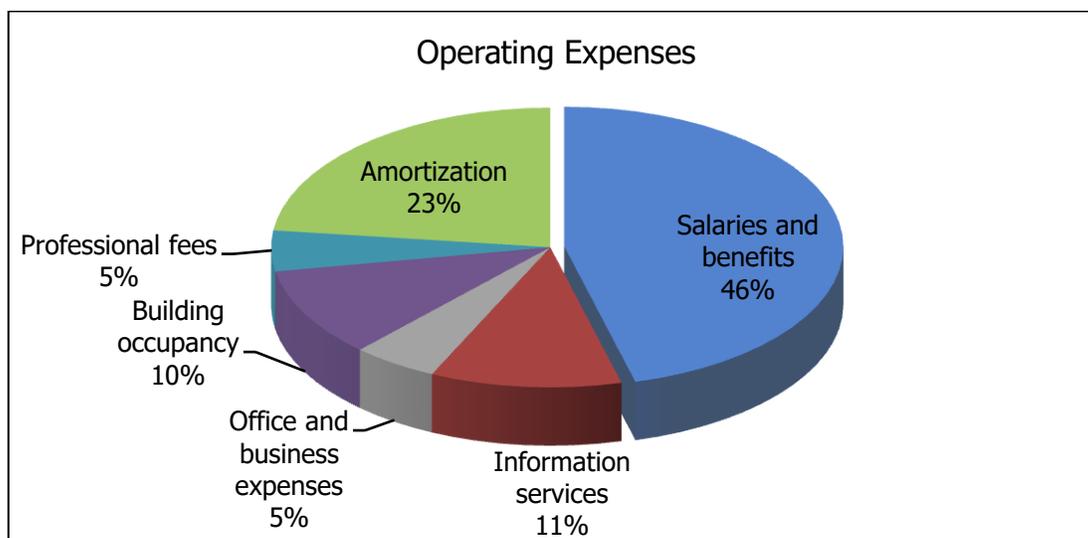
LTSA revenue sources consist of examination services to ensure that applications and plans are submitted in accordance with rules and regulations of various provincial statutes and acts; information products that include title, document and plan images, certifications and document scanning; and service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

Revenue by source:

Quarters ended September 30	2017	2016
Examination services	\$5,986,173	\$6,251,175
Information products	3,794,277	3,794,405
Service fees	1,810,823	1,796,356
	<u>\$11,591,273</u>	<u>\$11,841,936</u>

The LTSA will continue to investigate new business initiatives that provide new sources of revenue to improve customer service and maximize the return on investment on property, equipment and intangible assets.

Expenses



Expenses before other income and expenses for this quarter totalled \$8.0 million compared to \$7.4 million in the same period in the prior year, an increase of \$0.6 million.



Salaries and benefits this quarter were \$0.3 million higher than the prior year reflecting increases for excluded staff, reclassifications of examiner bargaining unit positions, and a 2.0% increase for bargaining unit staff under the terms of the collective agreement on October 30, 2016.

Amortization expense of \$1.8 million for the quarter is an increase of \$0.2 million due to more PMBC assets going into service in fiscal 2017. Increased amortization expense will continue for the balance of fiscal 2018 as the project is complete and in full operation.

Operating Margin

LTSA operating margin of 31.4% this quarter reflects three segments: Core Business, myLTSA and PMBC. Core Business comprises the operations of the land title and surveyor general divisions; myLTSA, the electronic portal to LTSA information and services, and PMBC is a single electronic map of all titled parcels and surveyed provincial Crown land parcels.

Operating margins by segment:

Quarters ended September 30	2017	2016
Total LTSA	31.4%	37.7%
Core Business	35.6%	38.5%
myLTSA	35.2%	35.9%
PMBC	(9.1)%	33.9%

The decrease in LTSA operating margins was forecast for fiscal 2018. For Core Business and myLTSA segments, the key drivers are reduced revenues due to lower transaction volumes in the provincial real estate market and cost increases for salaries and benefits and amortization costs. The decline in operating margin for PMBC reflects the transition from build phase to operating phase as all costs for the PMBC team became operating expenses during the quarter.

Net Income and Comprehensive Income

Overall, net income and comprehensive income for the period totalled \$3.6 million down from the \$4.4 million recorded in 2016. The decrease of \$0.8 million was primarily due to 2.1% lower revenues and 7.5% higher operating costs, net of other income and expenses and income taxes.

The LTSA anticipates reporting positive net income in fiscal 2018. The most significant impacts on the LTSA's forecast net income are the forecasted reduction in revenue and increases in salaries and benefits, information services and amortization expense for fully deployed intangible assets.



Liquidity and Capital Resources

Sources and Uses of Cash

Cash and cash equivalents of \$38.0 million and current investments of \$26.9 million total \$64.9 million on September 30, 2017 (March 31, 2017 - \$58.1 million), of which \$0.3 million (March 31, 2017 - \$0.3 million) consisted of cash collected on behalf of the Province of BC and other parties. The cash owing to these parties is remitted on the following business day each year.

The remaining \$64.6 million (March 31, 2017 - \$57.8 million) represents cash, cash equivalents and short-term investments available to the LTSA at quarter end. Net LTSA liabilities (total liabilities less funds held for customers, trade and other receivables and prepaid expenses) totalled \$10.8 million at September 30, 2017 (March 31, 2017 - \$10.8 million) which, when combined with the \$6.0 million (March 31, 2017 - \$6.0 million) allocated to the Assurance Fund, left \$47.8 million (March 31, 2017 - \$41.0 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 the quarter totalled \$5.3 million compared to \$6.9 million in 2016. The decrease in cash from operations is primarily due to the increased cash operating costs, particularly salaries and benefits, of \$1.4 million combined with the decline in fees received of \$0.2 million.

Capital Investments

Quarters ended September 30	2017	2016
Project ACE	\$1.2	\$ -
PMBC and other software systems	-	0.9
Property and equipment	0.1	0.2
	<u>\$1.3</u>	<u>\$1.2</u>

The initial build phase of PMBC was completed last quarter and its fabric components are now fully operational. During this quarter, the development phase of Project ACE continued and \$1.2 million of capital expenditures were incurred. We anticipate spending at the same level next quarter.

Off-Balance Sheet Arrangements

The LTSA has no off-balance sheet arrangements.

Outlook

The September 2017 BC Real Estate Association's forecast is for a 10.0% decrease in 2017 unit sales volumes from 2016 due to lack of supply, the on-going but softening impact of policy changes related to new mortgage qualification requirements, and the increased property transfer tax. Previous forecasts estimated a 14.1% decline in 2017 unit volume sales. In June 2017, the Business Council of BC forecasted 2017 real GDP in BC will expand at 2.5%, an increase from previous forecasts of 2.2%. Prompted by economic growth that exceeded its forecast, the Bank of Canada raised its interest rates during the quarter resulting in continued mortgage rate hikes.

All of the LTSA's revenue is transaction driven based on actual activity in the provincial real estate market. Both revenue and net income would be negatively impacted if transaction volumes are significantly lower than the fiscal 2018 forecast.

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.

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.

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