



Land Title and Survey Authority of British Columbia

Management's Discussion and Analysis

Of Financial Condition and Results of Operations
For the Quarter ended December 31, 2017

This management's discussion and analysis ("MD&A"), dated February 16, 2018, 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

Total revenues were \$11.1 million for the quarter ended December 31, 2017 including release of a \$1.0 million provision, an increase of \$1.4 million or 14.8% compared to \$9.7 million for the same period in the prior year. Revenues remained strong due to high transactional activity in the provincial real estate market. Strong transactional activity has continued in January 2018.

Net income for the quarter was \$2.6 million, an increase of \$1.1 million or 68.9% from the same period in the prior year. Operating expenses increased by \$0.5 million due to higher salary and benefit costs of \$0.3 million and increased amortization of \$0.1 million for ParcelMap BC ("PMBC") assets placed in service completing this project.

The multi-year Advanced Customer Enhancements project ("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 \$4.8 million to date on this project of which \$0.6 million was spent this quarter. We plan to complete this project in fiscal 2019/20 at a total cost of \$10.3 million.

Results

The quarter's net income increase of \$1.1 million from 2016 arose from \$1.1 million higher earnings in the core business and \$0.1 million higher earnings from the myLTSA business offset by \$0.1 million lower earnings from the PMBC segment.

Cash flows from operating activities were similar to the same period last year at \$3.0 million. Investments in property, equipment and intangible assets decreased from \$1.4 million to \$0.2 million in the same period, all financed from operations. The decrease in cash invested was due to delays in achieving milestones triggering payments for both Project ACE and PMBC.

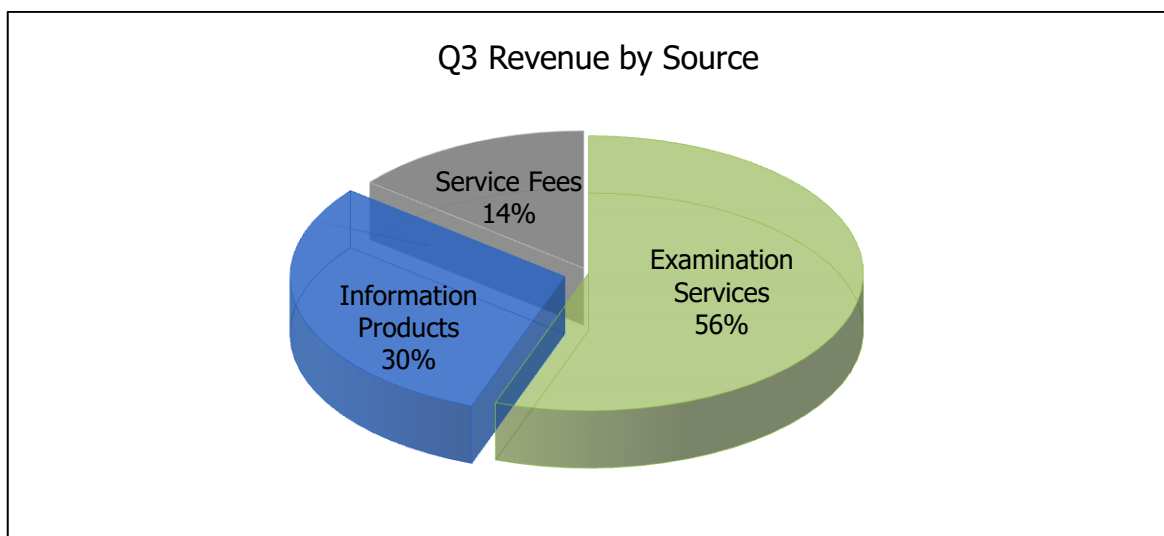


The following table sets forth certain consolidated statement of operations data, as well as consolidated statement of financial position data, expressed in dollars, as at December 31, 2017 and 2016.

	2017	2016
Revenue	\$11,135,448	\$9,696,104
Expenses:		
Salaries and benefits	3,669,332	3,388,084
Information services	1,000,411	1,017,008
Office and business expenses	574,284	537,871
Building occupancy	813,151	803,562
Professional fees	735,619	732,664
Amortization	1,844,854	1,717,626
	8,667,651	8,196,815
Operating income	2,467,797	1,499,289
Other income (expenses):		
Bank charges, interest and investment fees	(28,252)	(26,865)
Interest income	257,280	133,072
Gain on disposal of property and equipment	1,055	1,730
	230,083	107,937
Income and comprehensive income before income taxes	2,697,880	1,607,226
Income tax expense	100,016	68,693
Net income and comprehensive income	\$2,597,864	\$1,538,533
Operating margin	22.2%	15.5%

	December 31, 2017	March 31, 2017
Total assets	\$99,855,421	\$91,622,737
Total liabilities	\$14,123,719	\$14,812,875
Total long-term liabilities	\$848,030	\$658,482
Total equity	\$85,731,702	\$76,809,862

Revenue



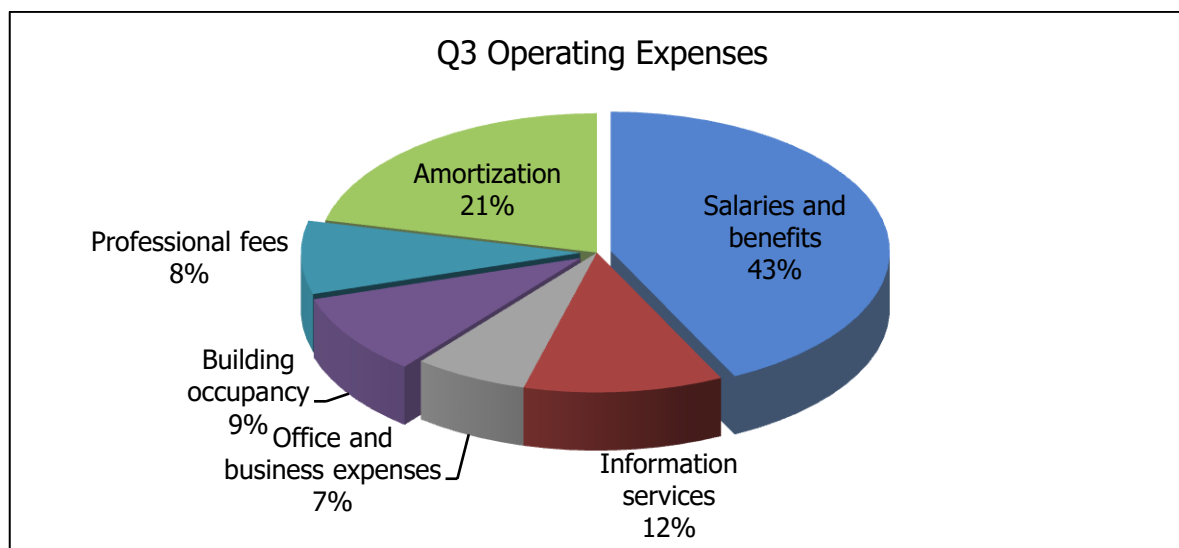
LTSA revenue sources consist of examination services to ensure that applications and plans are submitted in accordance with rules and regulations of various provincial statutes and acts; information products that include title, document and plan images, certifications and document scanning; and service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

Revenue by source:

Quarters ended December 31	2017	2016
Information products	\$3,369,258	\$3,117,051
Examination services	6,179,763	5,128,818
Service fees	1,586,427	1,450,235
	<u>\$11,135,448</u>	<u>\$9,696,104</u>

Revenues are expected to decline to between \$8.0 to \$9.0 million in the fourth quarter in line with regular seasonality. The LTSA will continue to investigate new business initiatives that diversify revenue, improve customer service and provide a return on investment in property, equipment and intangible assets.

Expenses



Expenses before other income and expenses for this quarter totalled \$8.7 million compared to \$8.2 million in the same period in the prior year, an increase of \$0.5 million.

Salaries and benefits this quarter were \$0.3 million higher than in the prior year reflecting increases for excluded staff and reclassifications of some Land Title Examiner positions. It is expected that these costs will continue to rise in 2018 with the tight labour market for professionals, particularly in Information Technology.

Amortization expense of \$1.8 million for the quarter is an increase of \$0.1 million due to PMBC completing in fiscal 2017/18 and going into full operation. We anticipate amortization will increase as we complete and begin amortizing Project ACE assets in fiscal 2018/19.

All other expense categories were close to last year and are expected to remain so in the fourth quarter.

Operating Margin

LTSA operating margin of 22.2% this quarter reflects our three reportable 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, the single electronic map of all titled parcels and surveyed provincial Crown land parcels.



Operating margins by segment:

Quarters ended December 31	2017	2016
Total LTSA	22.2%	15.5%
Core Business	27.2%	17.9%
myLTSA	22.9%	16.4%
PMBC	(25.3%)	(6.0%)

For the Core Business segment, the key drivers for higher operating margin were increased transaction volumes in the provincial real estate market and the release of the revenue provision. The operating margin for the myLTSA segment also increased due to higher transaction volumes. The decline in the operating margin for PMBC reflects the transition from build phase to operating phase as all costs for PMBC are now operating expenses.

Net Income and Comprehensive Income

Overall, adjusted net income and comprehensive income for the period totalled \$2.6 million, \$1.1 million greater than the \$1.5 million recorded in 2016. The increase of \$1.1 million was primarily due to 14.8% higher revenues offset by 4.7% higher operating costs, net of other income and expenses and income taxes.

The LTSA anticipates reporting positive net income in fiscal 2017/18. The most significant impacts on the LTSA's forecast net income are reductions in revenue and increases in salaries and benefits, information services and amortization expense for fully deployed PMBC assets.

Liquidity and Capital Resources

Sources and Uses of Cash

Cash and cash equivalents of \$45.7 million and current investments of \$22.0 million total \$67.7 million on December 31, 2017 (March 31, 2017 - \$58.1 million), of which \$0.1 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 \$67.6 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 \$9.7 million at December 31, 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 \$51.9 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 \$3.0 million, comparable to the same period in 2016.

Capital Investments

Quarters ended December 31	2017	2016
Project ACE	\$490,184	\$ -
PMBC and other software systems	9,908	595,540
Property and equipment	43,604	144,284
	<u>\$543,696</u>	<u>\$739,824</u>

The initial build phase of PMBC was completed in the first quarter and its fabric components are fully operational. During this quarter, the development phase of Project ACE continued and \$0.5 million of capital expenditures were incurred. We anticipate increased spending next quarter on Project ACE.

Off-Balance Sheet Arrangements

The LTSA has no off-balance sheet arrangements.

Outlook

The November 2017 BC Real Estate Association's forecast is for a 10.0% decrease in 2018 unit sales volumes from 2017 due to rising interest rates, tougher mortgage qualifications and slower population growth. Countering these effects, the BC economy is forecasted to strengthen at a growth rate of 3.8%, and that will support the housing market.

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 2017/18 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.