



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, 2018

This management's discussion and analysis ("MD&A"), dated February 15, 2019, should be read in conjunction with the Land Title and Survey Authority of British Columbia's ("LTSA") audited consolidated financial statements and related notes for the year ended March 31, 2018 (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 Ltd. ("LandSure") and Autoprop Software Ltd. ("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 and myLTSA services provided to customers. Fees are established in compliance with requirements set out in the Operating Agreement.

Highlights

Total revenue for the third quarter was \$9.4 million, \$1.8 million less than prior year or 16.0%. The third quarter in 2017 included a \$1.0 million revenue provision reversal which skewed the prior year's results. If the provision adjustment was removed, the variance to prior year would have been \$0.8 million or 7.7%. The decreased revenue reflects reduced transactional activity in the provincial real estate market. Total operating expense for the third quarter was \$8.7 million, almost the same as in the prior year. The key factors affecting increased operating expenses were increased salaries and benefits costs and increased professional fees for the acquisition of Autoprop and to support litigation and provincial legislation. These increases were offset by reductions in information services sustainment and amortization for the ASTRA land title system, the majority of which is now amortized.

We acquired Autoprop, a technology company that provides data automation solutions for real estate professionals, for \$ 1.5 million in October 2018. We plan to integrate Autoprop's technology into our own platforms to allow better decision making for our customers.

We invested \$1.0 million in software development during the quarter, primarily for costs to build the Condo & Strata Assignment Integrity Register ("CSAIR") which was released on February 10, 2019. The multi-year Web Filing project continues the LTSA's commitment to improve customer experience through new and enhanced services on myLTSA, including electronic search and filing improvements. Third quarter development was mostly placed on hold for this project with efforts diverted to the development of CSAIR. 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 December 31, 2018 and 2017.

Quarters ended December 31	2018	2017
Revenue	\$9,358,417	\$11,135,448
Expenses:		
Salaries and benefits	4,219,263	3,699,332
Information services	734,318	1,000,411
Office and business expenses	592,213	574,284
Building occupancy	882,083	813,151
Professional fees	898,980	735,619
Amortization	1,324,538	1,844,854
	8,651,395	8,667,651
Operating income	707,022	2,467,797
Other income (expenses):		
Bank charges, interest and investment fees	(39,741)	(28,252)
Investment income	424,743	257,280
Gain (loss) on disposal of property and equipment	25	1,055
	385,027	230,083
Income and comprehensive income before taxes	1,092,049	2,697,880
Income taxes	26,259	100,016
Net income and comprehensive income	\$1,065,790	\$2,597,864
Total assets	\$101,458,041	\$99,855,421
Total liabilities	\$12,627,052	\$14,123,719
Total non-current liabilities	\$2,501,107	\$848,030
Total equity	\$88,830,989	\$85,731,702



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

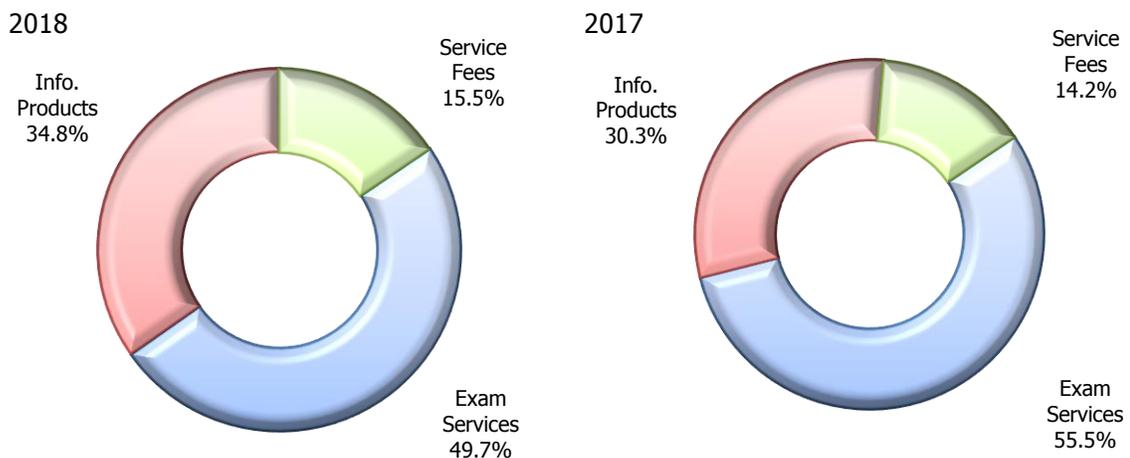
Quarters ended December 31	2018	2017
Revenue	100.0%	100.0%
Expenses:		
Salaries and benefits	45.1%	33.2%
Information services	7.8%	9.0%
Office and business expenses	6.3%	5.2%
Building occupancy	9.4%	7.3%
Professional fees	9.6%	6.6%
Amortization	14.2%	16.6%
	92.4%	77.9%
Operating margin	7.6%	22.1%
Other income (expenses):		
Bank charges, interest and investment fees	(0.4%)	(0.3%)
Investment income	4.5%	2.3%
Loss on disposal of property and equipment	(0.0%)	(0.0%)
	4.1%	2.0%
Income and comprehensive income before taxes	11.7%	34.1%
Income taxes	0.3%	0.9%
Net income and comprehensive income	11.4%	23.2%



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 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.

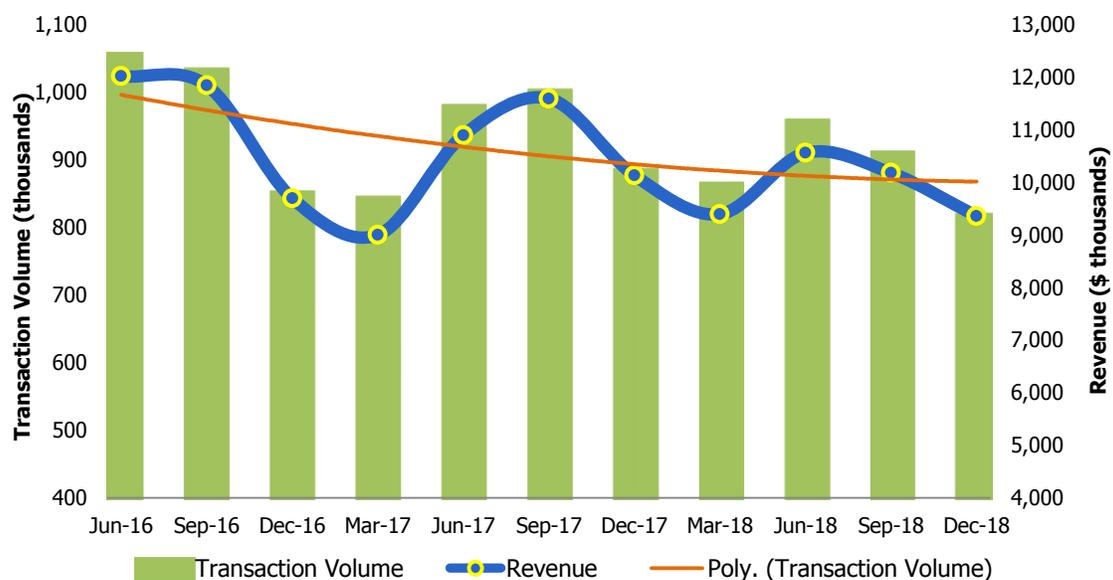
Revenue by Source



Quarters ended December 31	2018	2017
Examination services	\$4,648,727	\$6,179,763
Information products	3,255,380	3,369,258
Service fees	1,454,310	1,586,427
	<u>\$9,358,417</u>	<u>\$11,135,448</u>

Total revenue for the third quarter was \$9.4 million, less than prior year by \$1.8 million or 16.0%. Revenues were down reflecting lower transaction volumes due to a cooling real estate market. January 2019 revenue was close to the prior year but we still expect revenue in the fourth quarter to continue to be lower than prior year.

Revenues for the third quarter continue the downward trend of lower transaction volumes we have seen since 2016. This quarter’s revenue trend also reflects seasonality where we typically experience a slowdown in the third and fourth quarters. The graph below plots the transaction volume and outlines the aforementioned downward trend and the impact of seasonality.

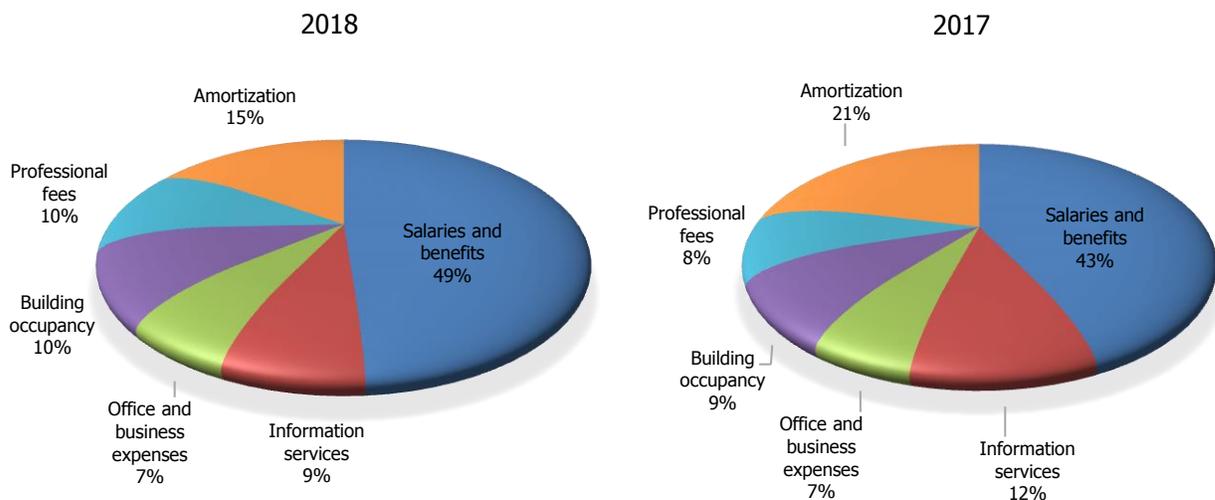


LTSA is continuing its commitment to develop new sources of revenue to improve customer service. The first initiative, Autoprop, brought in \$0.1 million of revenue this quarter and is expected to generate around \$1.0 million of revenue annually. Annual revenues of about \$0.3 million are expected from the Condo & Strata Assignment Integrity Register.

Expenses

In this quarter, operating expense was \$8.7 million which is the same as in the third quarter last year.

Operating Expenses



Salaries and benefits cost was \$4.2 million, \$0.5 million or 14.1% greater than prior year, reflecting new hires as we continue to strengthen our team with more experienced specialists. We expect salaries and benefits expenses for professional and technology workers will continue to increase at a rate higher than core inflation.

Information services cost was \$0.7 million, \$0.3 million or 26.6% less than the same period last year. This decrease reflects a conscious shift in focus from operations and maintenance to system development in order to deliver the CSAIR system. We expect this trend to continue in the fourth quarter as we balance between system development and operations.

Office and business expense was \$0.6 million which is the same as prior year. We expect office and business expense to be consistent next quarter.



Professional fees were \$0.9 million, \$0.2 million or 22.2% more than last year. The increase was primarily due to higher legal costs associated with the acquisition of Autoprop, ongoing litigation and supporting the province’s legislative initiatives. Professional fees will remain at the same level next quarter due to our commitment to continue to invest in business development initiatives and operational excellence.

Amortization was \$1.3 million, \$0.5 million or 28.2% less than the same period last year. The decrease was primarily due to large components of the ASTRA registry system being fully amortized last quarter. The trend of decreased amortization that began last quarter will continue until the end of the fiscal year as more components of the ASTRA system become fully amortized. This decline will be partially offset with the release of Web Filing components in the first quarter of fiscal 2019-2020.

Operating Margin

LTSA operating margin of 7.6% in 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 December 31	2018	2017
Total LTSA	7.6%	22.2%
Core Business	10.5%	27.2%
myLTSA	9.7%	22.9%
PMBC	(19.9%)	(25.3%)

The reduced Core Business and myLTSA operating margins reflect lower transaction volumes and increased operating costs. The improvement in operating margin for PMBC is due to lower operating costs in the segment. Next quarter, we anticipate a continued decline in total operating margin reflecting seasonal decreased transaction volumes.

Net Income and Comprehensive Income

Overall, net income and comprehensive income totalled \$1.1 million or 11.4% of revenue, down from \$2.6 million or 23.3% of revenue recorded in 2017. The decrease



of \$1.5 million was primarily due to 16.0% lower revenue and 1.5% higher operating costs and income taxes, net of other income and expenses.

We anticipate reporting a net loss next quarter.

Liquidity and Capital Resources

Sources and Uses of Cash

Cash, cash equivalents and short-term investments balance was \$68.4 million on December 31, 2018 (March 31, 2018 - \$68.0 million), of which \$0.05 million (March 31, 2018 - \$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 the following business day.

The remaining \$68.3 million (March 31, 2018 - \$67.7 million) represents cash, cash equivalents and short-term investments actually available to the LTSA. Net LTSA liabilities (total liabilities less funds held for customers, trade and other receivables and prepaid expenses) totalled \$7.8 million (March 31, 2018 - \$9.0 million) at December 31, 2018 which, when combined with the \$6.0 million (March 31, 2018 - \$6.0 million) allocated to the Assurance Fund, left \$54.5 million (March 31, 2018 - \$52.7 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 \$0.4 million compared to \$3.0 million in 2017. The decrease in cash from operations is primarily due to the decline in revenues.

Capital Investments



Quarters ended December 31 (in millions)	2018	2017
Autoprop	\$1.7	\$0.0
Condo & Strata Assignment Integrity Registry	0.9	0.0
Web Filing and other software	0.1	0.5
Property and equipment	0.1	0.0
	<u>\$2.8</u>	<u>\$0.5</u>

Overall, the LTSA invested \$2.8 million in capital projects in the third quarter with 61.1% of the expenditures for the acquisition of the Autoprop software and 33.2% for the development of the CSAIR system.

Capital expenditures in the fourth quarter will be for the completion of the CSAIR system and for Web Filing.

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

The January 2019 BC Real Estate Association's housing market update indicated a 24.5% decrease in 2018 unit sales volumes from 2017 due to a decline in affordability primarily caused by more stringent mortgage qualification rules. This led to a sharp decline in residential housing activity. December 2018 sales were down 39.1% from December 2017. Housing prices in December also declined 5.2% from 2017. This trend is expected to continue into the first quarter of 2019 along with a slowdown in housing starts. The January 2019 Fourth Quarter BC Economic Review and Outlook published by the Business Council of BC forecasted a slowdown in BC's Real GDP to a 2.2% growth rate due to the downturn in the real estate market and delays with the LNG Canada project.

All of the LTSA's revenue is transaction 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 2019 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.



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 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.

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