



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, 2019

This management's discussion and analysis ("MD&A"), dated February 25, 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 nine months ended December 31, 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, greater than prior year by \$1.0 million or 10.2%. The higher revenue is due to revenue from new sources of \$0.6 million and the \$0.4 million impact of an 8% fee increase on April 1, 2019. Transaction volumes were almost the same as in this period last year.

Cost of revenue was \$6.6 million which was greater than prior year by \$0.3 million or 5.6% with the operating margin increasing from 33.2% to 36.1%. Total operating expense for the quarter was \$3.1 million, greater than prior year by 28.4% or \$0.7 million. The key factor that contributed to this increase was \$0.8 million higher expenditures in policy and regulation due to increased headcount, professional services, and legal fees to support knowledge management and land title initiatives.

We spent \$3.4 million in the quarter on capital projects of which \$1.4 million was spent on property and equipment which includes leasehold improvements to our Victoria and Vancouver offices. We also spent \$1.0 million on the Web Filing project this quarter. The Web Filing project is expected to complete in 2020 at a total cost of \$10.3 million. Development also began on the construction of the Land Ownership Transparency Registry ("LOTR") system with a capital cost of \$0.8 million. Development for phase one is expected to be completed by the end of spring 2020. \$0.2 million was incurred 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 December 31, 2019 and 2018.

Quarter ended December 31	2019	2018
Revenue:		
Examination services	\$5,128,394	\$4,648,726
Information products and subscriptions	3,713,385	3,255,380
Service fees	1,475,547	1,454,311
	10,317,326	9,358,417
Cost of revenue:		
Cost of examination services	4,400,041	4,096,755
Cost of information products and subscriptions	1,354,654	1,389,065
Cost of service fees	840,911	761,319
	6,595,607	6,247,139
Gross income	3,721,719	3,111,278
Operating expenses:		
Research and development	725,505	848,818
Policy and regulation	1,061,214	254,993
General and administration	1,311,158	1,300,445
	3,087,877	2,404,256
Operating income	633,842	707,022
Other income (expenses):		
Lease interest	(138,831)	(1,338)
Bank charges, interest, and investment fees	(39,892)	(38,403)
Investment income	414,145	424,743
(Loss)/gain on disposal of property and equipment	(908)	25
	234,514	385,027
Income and comprehensive income before income taxes	868,356	1,092,049
Income taxes	62,430	26,259
Net income and comprehensive income	\$805,926	\$1,065,790
Total assets	\$116,398,032	\$101,458,041
Total liabilities	\$25,470,724	\$12,627,052
Total non-current liabilities	\$12,317,119	\$2,501,107
Total equity	\$90,927,308	\$88,830,989



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

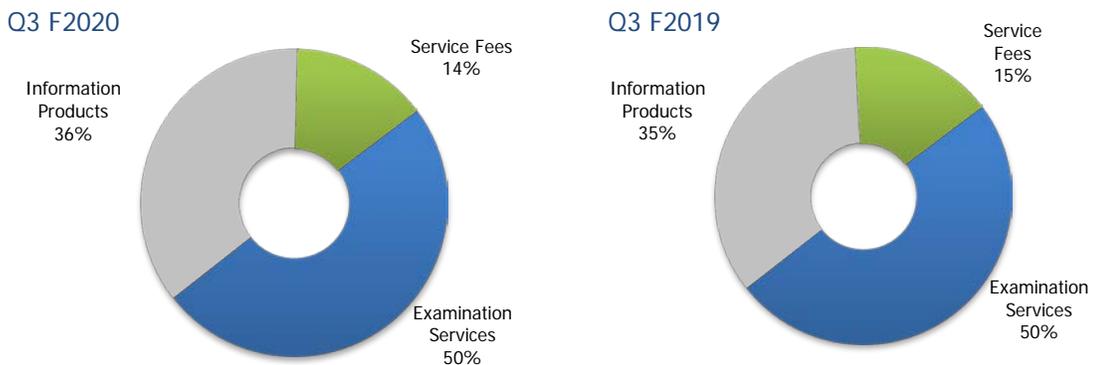
Quarter ended December 31	2019	2018
Revenue:		
Examination services	49.7%	49.7%
Information products and subscriptions	36.0%	34.8%
Service fees	14.3%	15.5%
	100.0%	100.0%
Cost of revenue:		
Cost of examination services	42.6%	43.7%
Cost of information products and subscriptions	13.1%	14.9%
Cost of service fees	8.2%	8.2%
	63.9%	66.8%
Gross income	36.1%	33.2%
Operating expenses:		
Research and development	7.0%	9.1%
Policy and regulation	10.3%	2.7%
General and administration	12.7%	13.9%
	30.0%	25.7%
Operating income	6.1%	7.5%
Other income (expenses):		
Lease interest	(1.3%)	(0.0%)
Bank charges, interest, and investment fees	(0.4%)	(0.4%)
Investment income	4.0%	4.5%
(Loss)/gain on disposal of property and equipment	(0.0%)	(0.0%)
	2.3%	4.1%
Income and comprehensive income before income taxes	8.4%	11.7%
Income taxes	0.6%	0.3%
Net income and comprehensive income	7.8%	11.4%



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

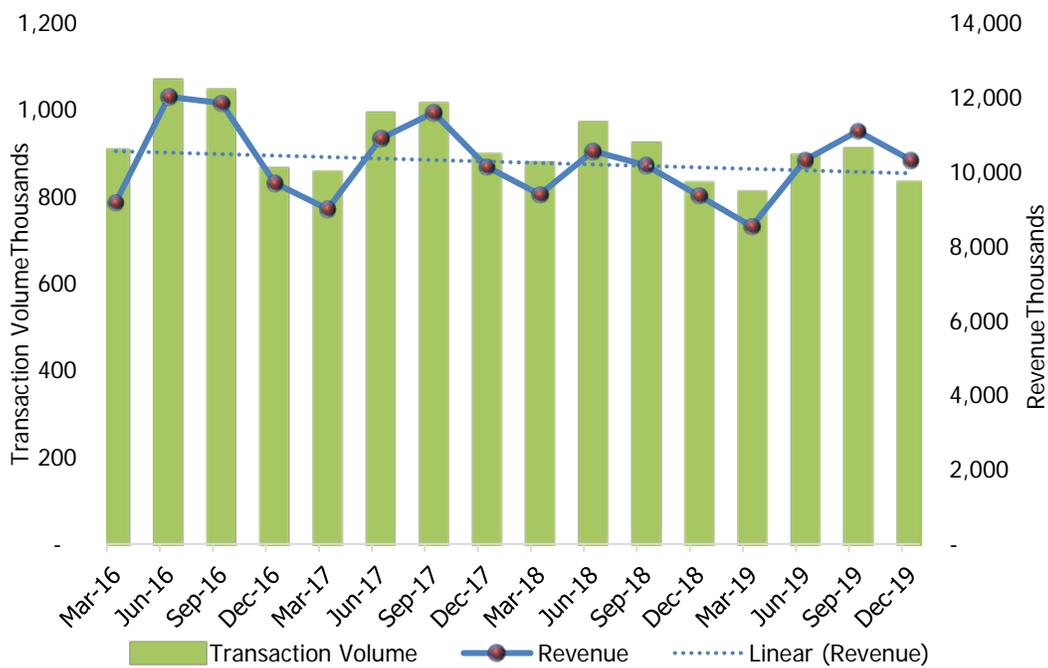


Quarter ended December 31 (in millions)	2019	2018
Examination services	\$5.1	\$4.6
Information products and subscriptions	3.7	3.3
Service fees	1.5	1.5
	\$10.3	\$9.4

Total consolidated revenue for the quarter was \$10.3 million, greater than prior year by \$1.0 million or 10.2%. Revenues were greater than the same period last year due to new service offerings and a 8.0% fee increase for statutory products and services. Volumes this quarter are virtually the same as in the prior year.



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



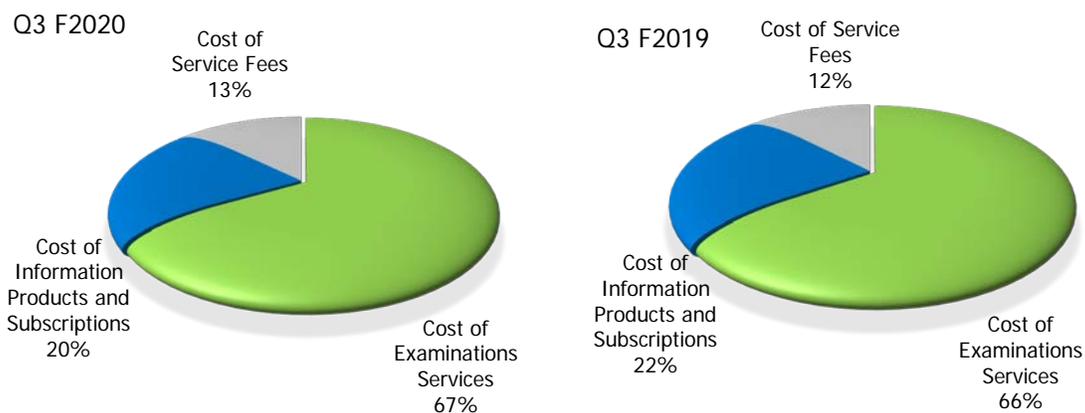
The LTSA's strategy is to develop new sources of revenue to support customers with interests in land information. Autoprop brought in \$0.3 million of revenue this quarter as did the Condo and Strata Assignment Integrity Register ("CSAIR") which was released in February 2019.



Cost of revenue

Cost of revenue for the quarter was \$6.6 million, \$0.4 million or 5.6% greater than the same period last year of \$6.2 million.

Cost of Revenue



Cost of examination services was \$4.4 million, \$0.3 million or 0.7% greater than the same period last year. This is primarily due to amortization of our first Web Filing services release which went into operation this quarter.

Cost of information products was \$1.4 million, approximately the same as last year. The cost of information products included Autoprop expenses of \$0.3 million which were offset by reduced spending in other areas.

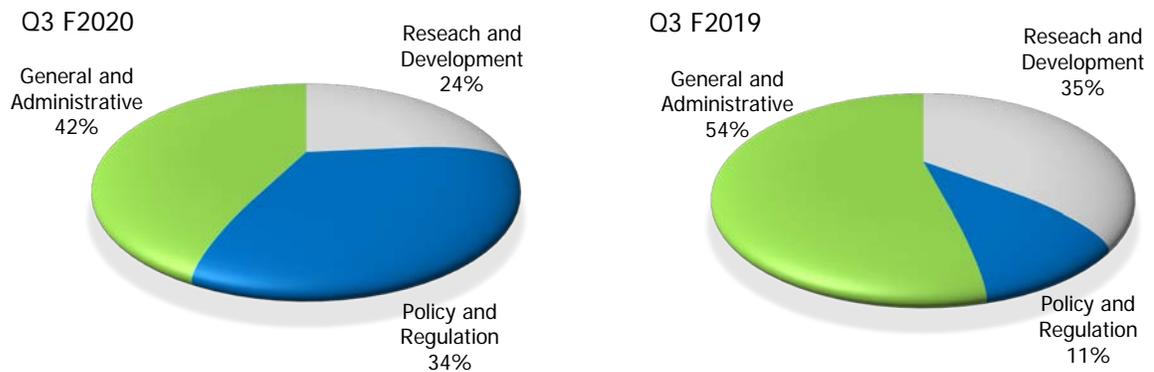
The cost of service fees was \$0.8 million, which was at the same level as in 2018. Spending patterns were consistent with last year. As with the cost of information products the cost of service fees does not vary significantly with transaction volumes.



Operating Expenses

Operating expenses for the quarter were \$3.1 million, \$0.7 million or 28.4% greater than in 2018.

Operating Expenses



Research and development costs were \$0.7 million, \$0.1 million or 14.5% less than the same period last year. The flat expense from last year is due to the temporary partial reassignment of our research and development team to support the development of the LOTR system. We expect our research and development costs to be back at higher levels than last year in future quarters.

Policy and regulation costs were \$1.0 million, \$0.8 million or 316.2% greater than in 2018. This increase is contributed to the increased headcount, professional services, and legal fees to support knowledge management and land title initiatives. In addition, we continue to invest significant resources in the restoration, conservation and archival storage of our historical collections of land title and survey documents.

General and administrative expenses were \$1.3 million, approximately the same as last year. There were no significant changes to the spending patterns this quarter compared to last year.



Gross Income

LTSA's gross income was \$3.7 million representing a 36.1% operating margin, up slightly from the 33.2% earned in the same quarter of the last fiscal year. The gross margin by revenue category is as follows:

Gross Margins by Revenue Type

Quarter ended December 31	2019	2018
Total LTSA	36.1%	33.2%
Examination services	14.2%	12.0%
Information products and subscriptions	63.5%	57.2%
Service fees	43.0%	47.5%

Examination services margins increased due to our fee increase. Information products and subscriptions margin increased due to the inclusion of Autoprop and CSAIR and the fee increase.

Net Income and Comprehensive Income

Overall, net income and comprehensive income totalled \$0.8 million or 7.8% of revenue, down \$0.3 million or 24.4% from 2018. A \$1.0 million increase in total revenue partially offset the \$0.3 million higher cost of revenue, \$0.7 million higher operating expenses, and \$0.3 million higher other expenses and taxes. We expect to be in a near break-even position in the 2019 - 2020 fiscal year 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 \$68.7 million on December 31, 2019 (December 31, 2018 - \$68.4 million), of which \$0.1 million (December 31, 2018 - \$0.1 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 \$68.6 million (December 31, 2018 - \$68.4 million) represents cash, cash equivalents and short-term investments available to the LTSA. Net LTSA liabilities (total current liabilities less funds held for customers, trade and other receivables and prepaid expenses) totalled \$12.1 million (December 31, 2018 - \$9.1 million) at December 31, 2019 which, when combined with the \$6.0 million (December 31, 2018 - \$6.0 million) allocated to the Assurance Fund, leaves \$54.2 million (December 31, 2018 - \$56.9 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 \$1.5 million compared to \$1.3 million for the same period last year.

Cash from Financing Activities

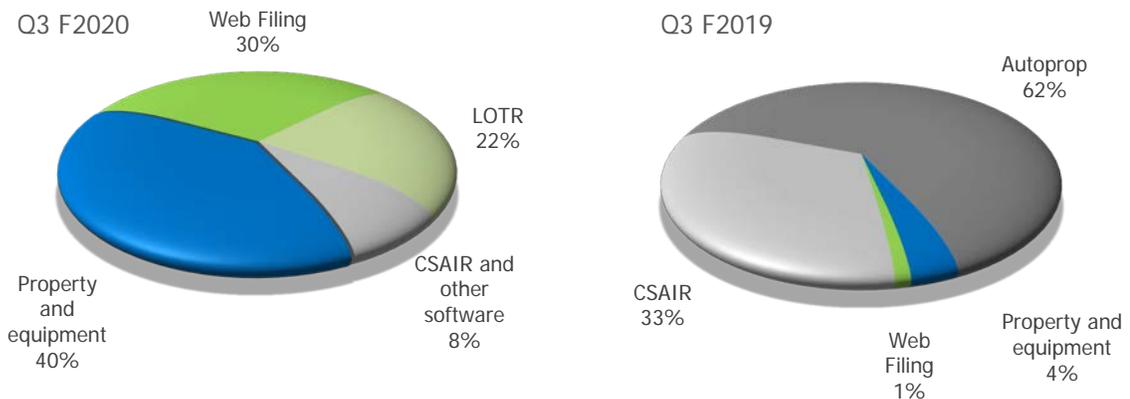
LTSA paid \$0.6 million this quarter for the repayment of lease obligations and lease interest. This is attributed to a reclassification of our operating leases due to our adoption of IFRS 16 on April 1, 2019.

Cash from Investing Activities

LTSA transfers excess cash into an investment portfolio that is governed by LTSA's investment strategy. LTSA transferred \$7.8 million from excess cash to investments this quarter. 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. \$4.4 million was invested in capital projects during the quarter.



Capital Investments



Quarter ended December 31 (in millions)	2019	2018
Property and equipment	\$1.4	\$0.1
Web Filing	1.0	0.1
LOTR	0.8	-
CSAIR and other software	0.2	0.9
Autoprop acquisition	-	1.7
	\$3.4	\$2.8

Property and equipment and leasehold improvements in our Victoria and Vancouver offices represented our largest investment this quarter while the Web Filing project was our principal systems investment. The Web Filing project will modernize the customer interface to the land title system and will be completed in the first half of 2020. We also started work on the LOTR system which is a major project to build and operate a registry under the *Land Ownership Transparency Act* on behalf of the Province. Filing services to the registry will be available by summer 2020 with search capabilities launching by the fall. Total cost to build the LOTR system will be about \$8.0 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.

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

In January 2020 the BC Real Estate Association forecast that 2020 will have a 10.3% increase in residential unit sales over 2019 and that provincial Real GDP growth will be 2.1%. This optimistic outlook is supported by the housing market recovery experienced in the last quarter of 2019. A flat interest rate with downward pressure and a strong economy also supports the housing market growth.

TD Bank estimate a forecasted 2.0% Real GDP growth for 2020. This is due to the recovering housing market, non-residential investment in areas such as LNG, oil and gas construction, and in technology.

LTSA's current forecast for fiscal 2019 – 2020 is for revenue to be about 5.3% 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 half of the year 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 11.7% greater than last year which would give us an expected net income of approximately \$0.5 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.