

Financial Statements of

**OCEAN NETWORKS
CANADA SOCIETY**

Year ended March 31, 2017



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INDEPENDENT AUDITORS' REPORT

To the Members of Ocean Networks Canada Society

Report on the Financial Statements

We have audited the accompanying financial statements of Ocean Networks Canada Society, which comprise the statement of financial position as at March 31, 2017, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ocean Networks Canada Society as at March 31, 2017, and its results of operations, its changes in net assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Report on Other Legal and Regulatory Requirements

As required by the Societies Act of British Columbia, we report that, in our opinion, the accounting policies applied in preparing and presenting the financial statements in accordance with Canadian public sector accounting standards have been applied on a basis consistent with that of the preceding year.

KPMG LLP

Chartered Professional Accountants
June 22, 2017

Victoria, Canada

OCEAN NETWORKS CANADA SOCIETY

Statement of Financial Position

March 31, 2017, with comparative information for 2016

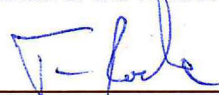
	2017	2016
Assets		
Current assets:		
Accounts receivable	\$ 2,676,358	\$ 4,741,850
Prepaid expenses	26,238	-
Due from University of Victoria	4,742,150	544,957
	<u>7,444,746</u>	<u>5,286,807</u>
Capital assets (note 2)	5,444,818	5,211,233
	<u>\$ 12,889,564</u>	<u>\$ 10,498,040</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,577,431	\$ 3,954,505
Deferred revenue	294,917	69,767
	<u>2,872,348</u>	<u>4,024,272</u>
Deferred contributions (note 3)	4,341,260	1,013,138
Unamortized deferred capital contributions (note 4)	5,412,292	5,196,966
Net assets:		
Invested in capital assets	32,526	14,267
Unrestricted	231,138	249,397
	<u>263,664</u>	<u>263,664</u>
Commitments (note 7)		
	<u>\$ 12,889,564</u>	<u>\$ 10,498,040</u>

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

OCEAN NETWORKS CANADA SOCIETY

Statement of Operations

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Revenue:		
Government of Canada (note 5)	\$ 10,255,022	\$ 9,727,706
Contract revenue	1,157,487	1,042,179
Miscellaneous	112,683	168,342
Province of British Columbia	10,000	70,000
Amortization of deferred capital contributions	968,371	1,069,655
	<u>12,503,563</u>	<u>12,077,882</u>
Expenses:		
Operational expenses (note 6)	9,176,405	8,422,322
Salaries and benefits	1,648,755	1,842,953
Consulting fees	400,419	162,744
Travel	174,721	329,759
Supplies	64,750	147,156
Hospitality	26,634	21,379
Professional fees	33,956	33,999
Amortization of capital assets	977,923	1,073,294
	<u>12,503,563</u>	<u>12,033,606</u>
Excess of revenue over expenses	\$ -	\$ 44,276

See accompanying notes to financial statements.

OCEAN NETWORKS CANADA SOCIETY

Statement of Changes in Net Assets

Year ended March 31, 2017, with comparative information for 2016

	Invested in capital assets	Unrestricted	Total
Net assets, March 31, 2015	\$ 6,393	\$ 212,995	\$ 219,388
Excess (deficiency) of revenue over expenses	(3,639)	47,915	44,276
Capital assets acquired with unrestricted net assets	11,513	(11,513)	-
Net assets, March 31, 2016	14,267	249,397	263,664
Excess (deficiency) of revenue over expenses	(9,552)	9,552	-
Capital assets acquired with unrestricted net assets	27,811	(27,811)	-
Net assets, March 31, 2017	\$ 32,526	\$ 231,138	\$ 263,664

See accompanying notes to financial statements.

OCEAN NETWORKS CANADA SOCIETY

Statement of Cash Flows

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operations:		
Excess of revenue over expenses	\$ -	\$ 44,276
Items not involving cash:		
Amortization of deferred capital contributions	(968,371)	(1,069,655)
Amortization of capital assets	977,923	1,073,294
Increase (decrease) in deferred contributions related to operations	3,328,122	(538,522)
Changes in non-cash operating working capital:		
Decrease (increase) in accounts receivable	2,065,492	(1,698,136)
Increase in prepaid expenses	(26,238)	-
Increase (decrease) in accounts payable and accrued liabilities	(1,377,074)	3,384,357
Increase in deferred revenue	225,150	12,462
	4,225,004	1,208,076
Capital:		
Acquisition of capital assets	(1,211,508)	(1,447,467)
Financing:		
Change in due to and from University of Victoria	(4,197,193)	(1,196,563)
Funding allocated to deferred capital contributions	1,183,697	1,435,954
	(3,013,496)	239,391
Net change in cash, being cash, beginning and end of year	\$ -	\$ -

See accompanying notes to financial statements.

OCEAN NETWORKS CANADA SOCIETY

Notes to Financial Statements

Year ended March 31, 2017

Ocean Networks Canada Society ("ONCS") is a non-profit society incorporated under the Society Act of British Columbia on July 19, 2007. ONCS was established by the University of Victoria to provide an effective and unified management structure for the operation of the University's two ocean networks, VENUS and NEPTUNE Canada. The revenues and expenses of these networks are not reflected in these financial statements.

1. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards ("PSAB") with the 4200 standards for government not-for-profit organizations. The following is a summary of the significant accounting policies used in preparation of these financial statements.

(a) Capital assets:

Capital assets are initially recorded at cost. When a capital asset no longer contributes to ONCS' ability to provide services, its carrying value is written down to its residual value with no reversals of such write downs in subsequent periods. Rates and bases of amortization applied to write off the cost less estimated residual value of assets over their estimated useful lives are as follows:

Asset	Basis	Rate
Furniture and equipment	straight-line	8 years
Computer equipment	straight-line	3 years
Computer software	straight-line	3 years
Patents	straight-line	10 years

(b) Financial instruments:

Accounts receivable, due to/from the University of Victoria, and accounts payable and accrued liabilities are recorded at fair value on initial recognition and subsequently recorded at cost or amortized cost. It is management's opinion that ONCS is not exposed to significant interest, currency or credit risks arising from these financial instruments.

OCEAN NETWORKS CANADA SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2017

1. Significant accounting policies (continued):

(c) Revenue recognition:

ONCS follows the deferral method of accounting for grants and contributions received.

Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Externally restricted capital contributions are recorded as deferred contributions until the amount is invested in capital assets. Contributions for capital assets that will be amortized are transferred to unamortized deferred capital contributions in the period the asset is acquired. Contributions for capital assets that will not be amortized, such as land, are not transferred to unamortized deferred capital contributions or recognized as revenue, but are recorded as a direct increase in net assets in the period the asset is acquired.

Unamortized deferred capital contributions are recognized as revenue on the same basis as the related capital assets are amortized.

(d) Contributed materials and services:

The University of Victoria and other organizations contribute materials and services at no cost to ONCS. These transactions are not reflected in these financial statements (note 6).

(e) Foreign currency:

The functional currency of ONCS is the Canadian dollar. Transactions in foreign currencies are translated into Canadian dollars at the exchange rate in effect on the transaction date. Monetary assets and liabilities denominated in foreign currencies are reflected in the financial statements in equivalent Canadian dollars at the exchange rate in effect at each reporting date. Any gain or loss resulting from a change in rates between the transaction date and the settlement date or reporting date is recognized in the statement of operations.

(f) Use of estimates:

The preparation of financial statements in conformity with PSAB requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

OCEAN NETWORKS CANADA SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2017

2. Capital assets:

March 31, 2017			
	Cost	Accumulated amortization	Net book value
Furniture and equipment	\$ 4,761,498	\$ 813,919	\$ 3,947,579
Computer equipment	2,044,036	1,984,324	59,712
Computer software	765,402	572,894	192,508
Patents	118,090	25,727	92,363
Work in progress	1,152,656	-	1,152,656
	<u>\$ 8,841,682</u>	<u>\$ 3,396,864</u>	<u>\$ 5,444,818</u>
March 31, 2016			
	Cost	Accumulated amortization	Net book value
Furniture and equipment	\$ 4,761,498	\$ 425,193	\$ 4,336,305
Computer equipment	2,063,968	1,659,567	404,401
Computer software	741,884	344,778	397,106
Patents	88,383	14,962	73,421
	<u>\$ 7,655,733</u>	<u>\$ 2,444,500</u>	<u>\$ 5,211,233</u>

Work in progress consists of unamortized amounts spent to date on the earthquake early warning system.

OCEAN NETWORKS CANADA SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2017

3. Deferred contributions:

Deferred contributions represent externally restricted contributions received but not yet spent. Changes in deferred contributions in the year are as follows:

	2017	2016
Balance, beginning of year	\$ 1,013,138	\$ 1,551,660
Contributions received	14,776,841	10,695,138
	15,789,979	12,246,798
Transfers to revenue	(10,265,022)	(9,797,706)
Transfers to unamortized deferred capital contributions	(1,183,697)	(1,435,954)
	(11,448,719)	(11,233,660)
Balance, end of year	\$ 4,341,260	\$ 1,013,138

Deferred contributions at March 31, 2017 comprise unspent Government of Canada contributions which are restricted in use to delivering the Innovation Centre Business Plan and the earthquake early warning system. Future expenditures may be capital in nature.

4. Unamortized deferred capital contributions:

Unamortized deferred capital contributions represent externally restricted contributions spent on capital assets. These contributions are recognized as revenue in future periods on the same basis as amortization of the related capital asset. Changes in unamortized deferred capital contributions in the year are as follows:

	2017	2016
Balance, beginning of year	\$ 5,196,966	\$ 4,830,667
Transfers from deferred contributions	1,183,697	1,435,954
	6,380,663	6,266,621
Transfers to revenue	(968,371)	(1,069,655)
Balance, end of year	\$ 5,412,292	\$ 5,196,966

OCEAN NETWORKS CANADA SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2017

5. Government of Canada:

Government of Canada revenue is comprised of the following:

	2017	2016
Transport Canada	\$ 8,400,000	\$ 7,400,000
Natural Sciences and Engineering Research Council	672,136	1,055,025
Western Economic Diversification Canada	114,815	629,952
CANARIE	204,026	117,359
Social Sciences and Humanities Research Council	224,045	294,567
Polar Knowledge Canada	240,000	205,888
Fisheries and Oceans Canada	400,000	-
Environment Canada	-	24,915
	<u>\$ 10,255,022</u>	<u>\$ 9,727,706</u>

6. Related party transactions:

Operational expenses include \$5,154,318 (2016 - \$7,250,402) of charges from the University of Victoria related to research activities for the Smart Oceans Contribution Program.

During the year, and consistent with prior years, ONCS received in-kind contributions from the University of Victoria consisting of various services, including provision of certain management and administrative staff, administrative services such as payroll, cash management and premises rental, all of which are provided at no cost to ONCS. These transactions have not been recorded in these financial statements, and amounts have not been estimated due to the related party nature and difficulty to estimate fair value.

All related party transactions have been recorded at the amount of consideration paid or received as agreed to by the related party.

OCEAN NETWORKS CANADA SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2017

7. Commitments:

The Society has entered into various funding agreements to support the creation of the Smart Oceans BC program. The infrastructure expansion program has a budget commitment of \$29.3 million to 2018 including significant expenditures which are to be funded through gift in kind contributions and certain expenditures that will be directly incurred by third parties. The largest funders are Western Economic Diversification Canada and IBM Canada Ltd. At March 31, 2017, approximately \$29.6 million of the budget commitment has been incurred, including \$8.9 million of Western Economic Diversification Canada's \$9.1 million three year commitment (\$3.9 million in year one of the program, fiscal 2014 and \$3.0 million in year two of the program, fiscal 2015, and \$2.0 million in year three of the program, fiscal 2016 and \$0.1 million in year four of the program, fiscal 2017). As a result of delays in the installation of some of the infrastructure, Western Economic Diversification Canada approved a no-cost extension and budget re-profiling to accommodate this delay until fiscal 2018.

From April 1, 2014 a grant of \$4,396,799 was received from the Natural Sciences and Engineering Research Council of Canada (\$3,297,600) and Social Sciences and Humanities Research Council of Canada (\$1,099,199) which is to be fully expended by March 31, 2018.

In June 2015 a new ONC-led sea-ice modelling science initiative involving researchers from Dalhousie, Calgary, Alberta and Carleton University INRS Quebec and Environment Canada was funded by Polar Knowledge Canada. The project has a budget commitment of \$700,000 over three years, \$220,000 in year one, fiscal 2016, \$240,000 in year two, fiscal 2017 and \$240,000 in year three, fiscal 2018.

In March 2016 the Society entered into a contribution agreement with Emergency Management BC to deliver an integrated earthquake early warning system capable of providing timely detection for earthquake events occurring on the Cascadia Subduction Zone. The agreement has a budget commitment of \$5.0 million to March 2019. As of March 31, 2017, \$1.2 million of the budget commitment has been incurred.

8. Employee and contractor remuneration:

The BC Societies Act came into effect on November 28, 2016. The Act has a requirement for the disclosure in the financial statements of the remuneration of directors, employees and contractors for financial statements prepared after November 28, 2016. For employee and contractor remuneration the requirement is to disclose amounts paid to individuals whose remuneration was greater than \$75,000. For the fiscal year ending March 31, 2017, the Society paid remuneration of \$931,952 to 8 employees, each of whom received total annual remuneration of \$75,000 or greater.