

Financial Statements of

**OCEAN NETWORKS CANADA
SOCIETY**

Year ended March 31, 2018



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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, 2018, 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, 2018, 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

Victoria, Canada
June 14, 2018

OCEAN NETWORKS CANADA SOCIETY

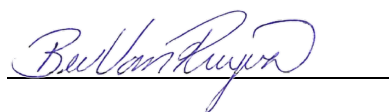
Statement of Financial Position

March 31, 2018, with comparative information for 2017

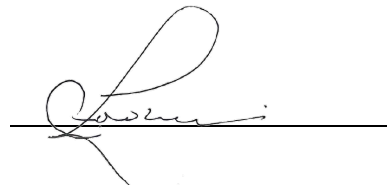
	2018	2017
Assets		
Current assets:		
Accounts receivable	\$ 3,859,747	\$ 2,676,358
Prepaid expenses	45,037	26,238
Due from University of Victoria	1,384,938	4,742,150
	<u>5,289,722</u>	<u>7,444,746</u>
Capital assets (note 2)	6,965,676	5,444,818
	<u>\$ 12,255,398</u>	<u>\$ 12,889,564</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,424,307	\$ 2,577,431
Deferred revenue	1,549,625	294,917
	<u>2,973,932</u>	<u>2,872,348</u>
Deferred contributions (note 3)	2,065,788	4,341,260
Unamortized deferred capital contributions (note 4)	6,723,801	5,412,292
Net assets:		
Invested in capital assets	241,875	32,526
Unrestricted	250,002	231,138
	<u>491,877</u>	<u>263,664</u>
Commitments (note 7)		
	<u>\$ 12,255,398</u>	<u>\$ 12,889,564</u>

See accompanying notes to financial statements.

Approved on behalf of the Board:



Director



Director

OCEAN NETWORKS CANADA SOCIETY

Statement of Operations

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Revenue:		
Government of Canada (note 5)	\$ 2,202,130	\$ 10,255,022
Contract Revenue	1,617,271	1,157,487
Miscellaneous	154,234	112,683
Province of BC	-	10,000
Amortization of deferred capital contributions	760,088	968,371
	<u>4,733,723</u>	<u>12,503,563</u>
Expenses:		
Operational expenses (note 6)	1,922,966	9,176,405
Salaries and benefits	1,229,245	1,648,755
Consulting fees	168,566	400,419
Travel	181,066	174,721
Supplies	158,967	64,750
Hospitality	19,026	26,634
Professional fees - audit	26,597	33,956
Amortization of capital assets	799,077	977,923
	<u>4,505,510</u>	<u>12,503,563</u>
Excess of revenue over expenses	<u>\$ 228,213</u>	<u>\$ -</u>

See accompanying notes to financial statements.

OCEAN NETWORKS CANADA SOCIETY

Statement of Changes in Net Assets

Year ended March 31, 2018, with comparative information for 2017

	Invested in capital assets	Unrestricted	Total
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
Excess (deficiency) of revenue over expenses	(38,989)	267,202	228,213
Capital assets acquired with unrestricted net assets	248,338	(248,338)	-
Net assets, March 31, 2018	\$ 241,875	\$ 250,002	\$ 491,877

See accompanying notes to financial statements.

OCEAN NETWORKS CANADA SOCIETY

Statement of Cash Flows

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operations:		
Excess of revenues over expenses	\$ 228,213	\$ -
Items not involving cash:		
Amortization of deferred capital contributions	(760,088)	(968,371)
Amortization of capital assets	799,077	977,923
Increase (decrease) in deferred contributions related to operations	(2,275,472)	3,328,122
Changes in non-cash operating working capital:		
Decrease (increase) in accounts receivable	(1,183,389)	2,065,492
Increase in prepaid expenses	(18,799)	(26,238)
Decrease in accounts payable and accrued liabilities	(1,153,124)	(1,377,074)
Increase in deferred revenue	1,254,708	225,150
	(3,108,874)	4,225,004
Capital:		
Acquisition of capital assets	(2,319,935)	(1,211,508)
Financing:		
Change in due to and from University of Victoria	3,357,212	(4,197,193)
Funding allocated to deferred capital contributions	2,071,597	1,183,697
	5,428,809	(3,013,496)
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, 2018

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. On November 28, 2016, the new Societies Act (British Columbia) became effective. The Society has until November 28, 2018 to transition to the new act.

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.

(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.

OCEAN NETWORKS CANADA SOCIETY

Notes to Financial Statements

Year ended March 31, 2018

1. Significant accounting policies (continued):

(c) Revenue recognition (continued):

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.

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Notes to Financial Statements

Year ended March 31, 2018

2. Capital assets:

March 31, 2018	Cost	Accumulated amortization	Net book value
Furniture and equipment	\$ 5,246,112	\$ 1,438,702	\$ 3,807,410
Computer equipment	2,072,635	2,022,048	50,587
Computer software	765,402	696,397	69,005
Patents	143,256	38,794	104,462
Work in progress	2,934,212	-	2,934,212
	<u>\$ 11,161,617</u>	<u>\$ 4,195,941</u>	<u>\$ 6,965,676</u>

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>

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

3. Deferred contributions:

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

	2018	2017
Balance, beginning of year	\$ 4,341,260	\$ 1,013,138
Contributions received	1,998,255	14,776,841
	<u>6,339,515</u>	<u>15,789,979</u>
Transfers to revenue	(2,202,130)	(10,265,022)
Transfers to unamortized deferred capital contributions	(2,071,597)	(1,183,697)
	<u>(4,273,727)</u>	<u>(11,448,719)</u>
Balance, end of year	<u>\$ 2,065,788</u>	<u>\$ 4,341,260</u>

OCEAN NETWORKS CANADA SOCIETY

Notes to Financial Statements

Year ended March 31, 2018

3. Deferred contributions (continued):

Deferred contributions at March 31, 2018 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:

	2018	2017
Balance, beginning of year	\$ 5,412,292	\$ 5,196,966
Transfers from deferred contributions	2,071,597	1,183,697
	7,483,889	6,380,663
Transfers to revenue	(760,088)	(968,371)
Balance, end of year	\$ 6,723,801	\$ 5,412,292

5. Government of Canada:

Government of Canada revenue is comprised of the following:

	2018	2017
Transport Canada	\$ -	\$ 8,400,000
Natural Sciences and Engineering Research Council	363,249	672,136
Western Economic Diversification Canada	10,596	114,815
CANARIE	239,284	204,026
Social Sciences and Humanities Research Council	121,083	224,045
Polar Knowledge Canada	338,369	240,000
Fisheries and Oceans Canada	130,549	400,000
Canadian Safety Security Program	999,000	-
	\$ 2,202,130	\$ 10,255,022

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Notes to Financial Statements

Year ended March 31, 2018

6. Related party transactions:

Operational expenses include \$nil (2017 - \$5,154,318) 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.

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, 2018, approximately \$29.6 million of the budget commitment has been incurred, including 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. The project is now closed.

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 was 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, 2018, \$3.46 million of the budget commitment has been incurred.

OCEAN NETWORKS CANADA SOCIETY

Notes to Financial Statements

Year ended March 31, 2018

7. Commitments (continued):

In March 2018, the Society entered a funding agreement with Defence Research and Development Canada under the Canadian Safety and Security Program. The agreement is for 2 years of \$1.0 million per year spanning from April 2017 to March 2019.

In April 2016, the Society entered into a research software program project agreement with CANARIE for a sum of \$577,209. Initially, the contract was to conclude at the end of March 2017. An extension to June 2018 was approved. As at March 31, 2018, \$442,876 has been expended.

In July 2017, the Society entered into a funding agreement with Polar Knowledge Canada for the sum of \$246,575. As at March 31, 2018, \$168,791 has been expended.

In August 2017, the existing contract with the Vancouver Fraser Port Authority was amended and its value increased by \$595,191 for a total of \$1,513,839. The amendment extends the contractual commitment to December 31, 2018.

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, 2018 the Society paid remuneration of \$981,073 to 7 employees (2017 - \$931,952 to 8 employees), each of whom received total annual remuneration of \$75,000 or greater. No payments were made to directors in 2018 or 2017.