

Management Discussion & Analysis Year ended March 31, 2018

This Management Discussion & Analysis is intended to accompany and complement CRKN's audited financial statements for the year ended March 31, 2018. Both the Finance & Audit Committee (FC) and the Board of Directors review the audited financial statements and notes, the associated summary financial statements, and this document prior to their approval by the Board for broader distribution.

The financial statements of CRKN are the responsibility of management. They have been prepared in accordance with Canadian accounting standards for not-for-profit organizations, and audited by Deloitte & Touche, LLP. No areas of concern or improvement were identified in either a management letter or in the auditor's year-end communication to the FC. CRKN completed its fourteenth year of independent operations as an incorporated Canadian not-for-profit on March 31, 2018. CRKN completed its fourteenth year of independent operations as an incorporated Canadian Not-for-Profit on March 31, 2018.

The vast majority of CRKN's revenue and corresponding expenses continue to consist of national licensing agreements with publishers for digital research content on behalf of CRKN members. CRKN is administered with the continued goal of the efficient provision of these license agreements with the full weight, leverage, and purchasing power of the organization for the benefit of all CRKN members.

Executive Summary

CRKN continues to fund operations internally without drawing on any credit facility by prudently monitoring cash flows while subsidizing its operating activities with interest and other revenue where appropriate. The multi-year financial objectives continue to reduce reliance on investment income, control costs and draw down accumulated surplus as needed, while the organization balances the proper size and scope of activities with the appropriate revenue sources to fund its ongoing operations.

CRKN continues its commitment to making digital content available to the academic research enterprise in Canada on a cost-effective, stable, and predictable basis. At the same time, the organization has also focused on the mandate to collaborate with stakeholders to advance digital scholarship in Canada. In particular, CRKN purchased the assets and hired the staff of Canadiana.org at the end of the fiscal year with the intent to assume Canadiana's operations as a program of CRKN.

Although CRKN had budgeted for a planned deficit of nearly \$25,000 during the 2017-2018 fiscal year, the organization realized enough one-time cost savings, investment income, and other revenues to achieve a surplus, the fourth in as many years. In addition, the structure of the Canadiana combination, and the nature of the liabilities assumed during the closing, gave rise to a one-time accounting gain on the transaction.

Major developments this year included the addition of a Member Support Specialist for ORCID-CA, the completion of the Journal Usage Project, relocation of the CRKN offices (within the existing complex and at the landlord's expense), development of a Business Proposal for the assumption of the activities and staff of Canadiana.org, and approval of the proposed combination during the Annual General Meeting in October 2017.

Analysis of the March 31, 2018 Financial Statements - Statement of Financial Position

Cash & receivables balances: Publisher invoicing delays, extending beyond the anticipated January 1 renewal for several licenses, once again created a large cash and receivables balance at March 31, 2018. All receivable amounts were current at year-end, and CRKN continues to maintain adequate financial resources to meet its operational requirements.

Amounts Due from Canadiana.org: At the end of the year and under the terms of the asset purchase agreement, CRKN was owed approximately \$125,000 from Canadiana.org. These amounts represent the remaining cash and outstanding receivables in that organization at March 31st.

Prepaid licenses and deferred revenue for license fees: CRKN realizes its license expenses and corresponding license revenue on a monthly basis as license access is provided, and accordingly, CRKN typically has significant, offsetting prepaid license and deferred revenue amounts. These unrealized license balances are slightly less than the record levels set a year ago, largely due to the effects of changing USD/CAD exchange rates.

Capital Assets: CRKN has added new asset categories for digitization equipment and scanners and switches to support the purchase of Canadiana's capital assets. As part of the transaction, CRKN acquired assets with a market value of \$339,000. CRKN also capitalized over \$28,000 in leasehold improvements paid by its landlord and coincident with its move to the fourth floor at Holland Cross.

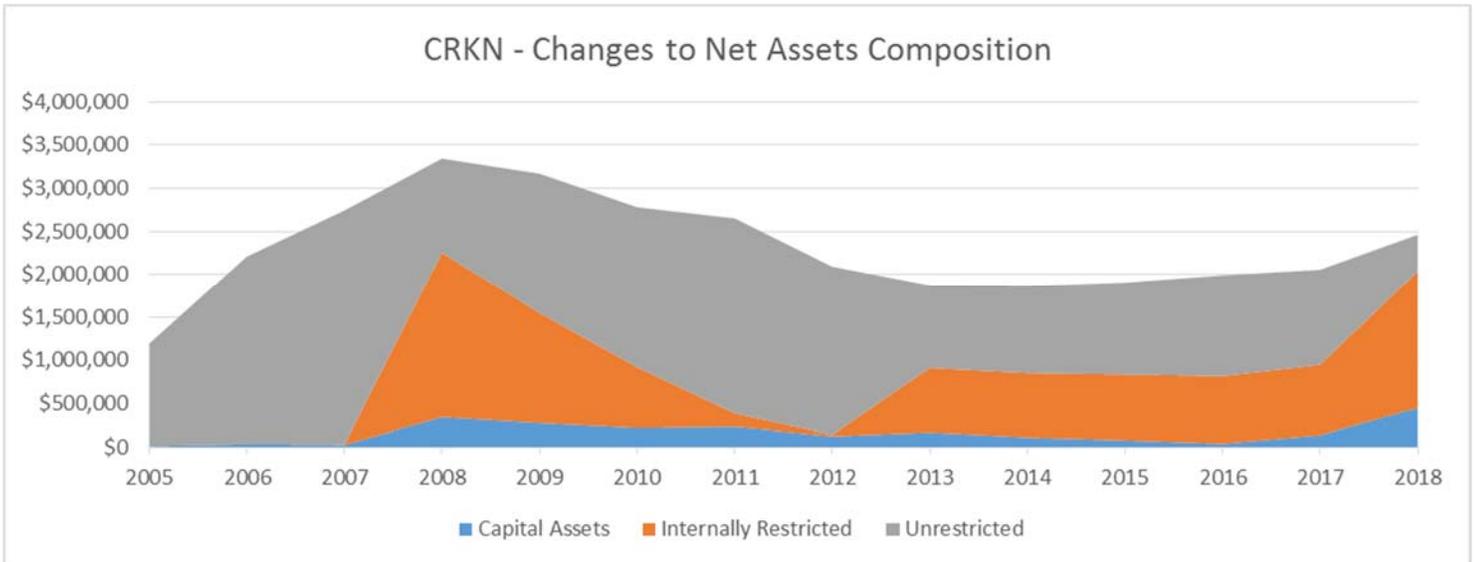
Accounts payable and accrued liabilities: CRKN's payables balance is driven by variations in the license cycle from year to year.

Government remittances payable/receivable: The periodic nature of CRKN's licensing operation often results in very significant commodity tax payable or recoverable balances. In general, CRKN recovers all of the GST, HST and QST expended in its operation.

Deferred Revenue: As in past years, CRKN has matched deferred revenue for licensing activities against prepaid license expenditures. As part of the combination with Canadiana.org, CRKN has also acquired and described deferred amounts paid to CRKN, by members, under the Canadiana ECO license and deferred revenue amounts (that is, revenue that will be earned by CRKN from Canadiana activities post-combination) in a new deferred revenue account. A new Heritage Content Access and Preservation Fund will facilitate the transition of ECO license fees and the Canadiana membership fees paid by CRKN members to fund Canadiana operations as a program of CRKN.

Unrestricted and Restricted Net Assets: As part of the budget approval process for FY2018-2019, and in accordance with its Net Assets Policy, CRKN has internally restricted \$1,585,923 (half of its approved FY2018-2019 operating budget) of its net assets.

CRKN sets aside a portion of its net assets against amounts invested in capital assets to account for anticipated future amortization. CRKN's balance of unrestricted net assets has been slowly increasing for the last four years until this year, when the effects of the Canadiana combination (and attendant growth in CRKN's operating budget) created a marked change in CRKN's balance of internally restricted assets. The FC will be reviewing the Net Assets Policy in the context of the Canadiana combination shortly.



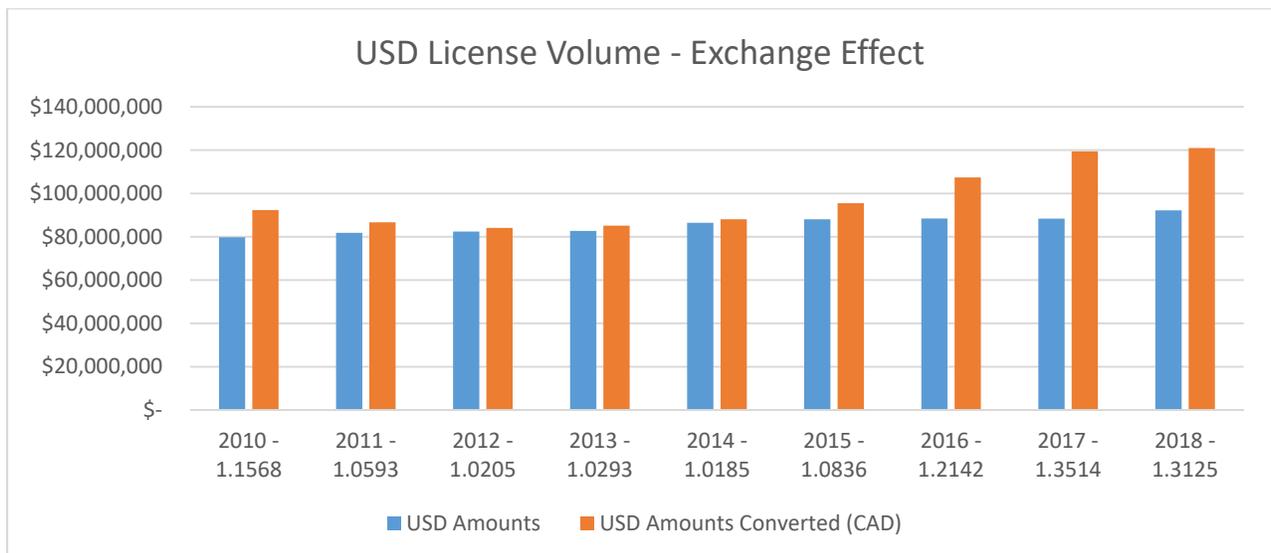
Analysis of the March 31, 2018 Financial Statements - Statement of Revenue and Expenses

Net License Contribution:

As CRKN bills members for 100% of its license costs, and because it matches the realization of licensing revenues and expenditures monthly based on the relevant license period, the net licensing contribution is ordinarily zero.

CRKN experienced another year of record revenues (resulting from high license costs), as increases in participation and pricing for USD-denominated content overcame increases in the purchasing power of the Canadian dollar (CAD). As in past years, variations in net revenues are more the result of fluctuations in the strength of the Canadian dollar than changes in license participation.

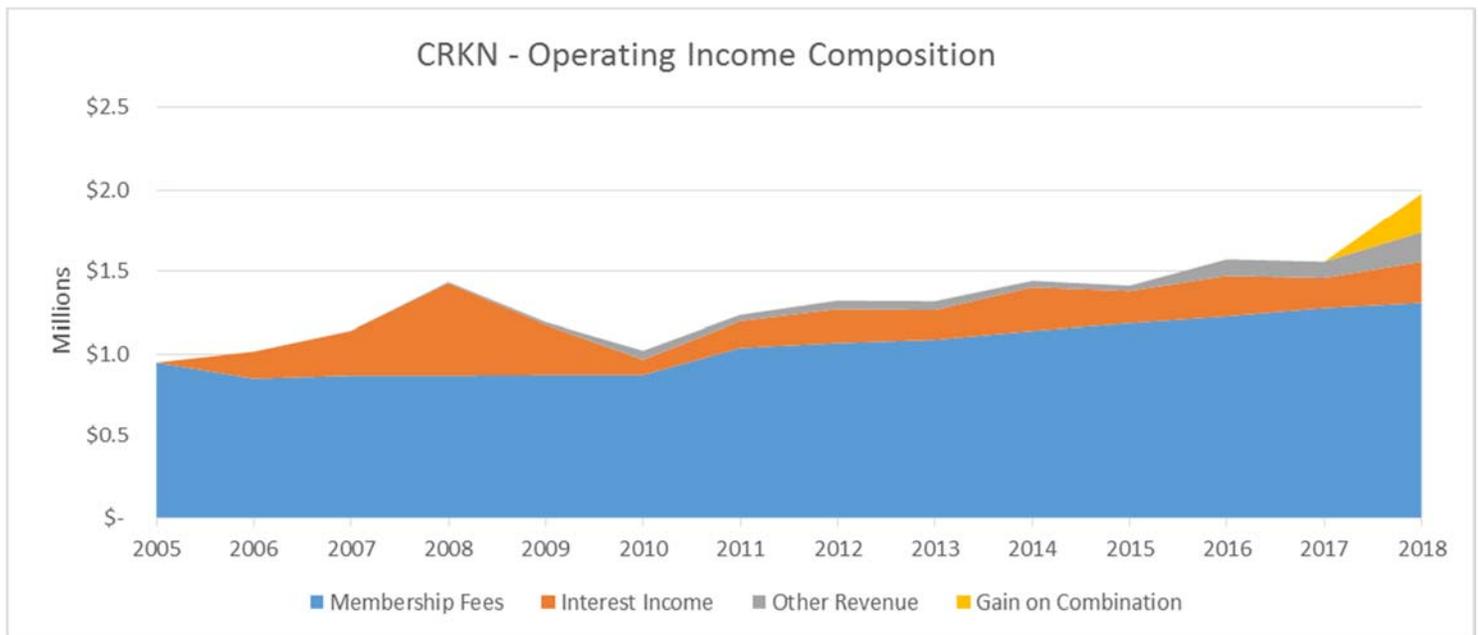
- CRKN's total license revenue in CAD has increased for each of the past five years (and this year is, again, a record for CRKN)
- Holding 2009-10 FX rates constant (i.e. in constant FY 2009-2010 Canadian dollars), FY2017-2018 proved to be CRKN's largest year in total licensing activity.
- Total USD-denominated license revenue increased by nearly \$4M, and was above \$92M for the first time ever.
- CRKN's USD license revenue (over 96% of total CRKN revenue) was realized at an average rate of 1.3125 (nearly 3% less than last year).
- CAD denominated content purchasing was up nearly 7% compared to last year, while content purchased in GDP was up over 2%, and content purchased in USD was up over 4%.



Operations Fees: With the approval of the membership, CRKN began a two-year planned move to membership fees based on the 13 bands rather than the previous 8 tiers beginning in 2017-2018. During the budgeting process for FY2017-2018, the Board approved a membership fee increase of 2.5% total during the year and from \$1,276,561 to \$1,308,515. CRKN's membership held constant again at 75 members for the year.

The two-year transition to membership fees based on the 13 bands will end in 2018-2019, a move that has seen significant changes to fees charged to some individual members. The intent remains for all members to be charged fees commensurate with one of 13 discrete membership bands by 2018-2019.

Interest Revenue: Interest revenue was significantly better than budgeted with interest rates rising three times during the year and from 1.05% to 1.80%. Significantly, cash balances (including USD balances) in the fourth quarter also contributed to benefit CRKN's investment results. CRKN continues to budget investment income conservatively, and continues to maximize cash flow and corresponding investment returns within the limits set by the Board.

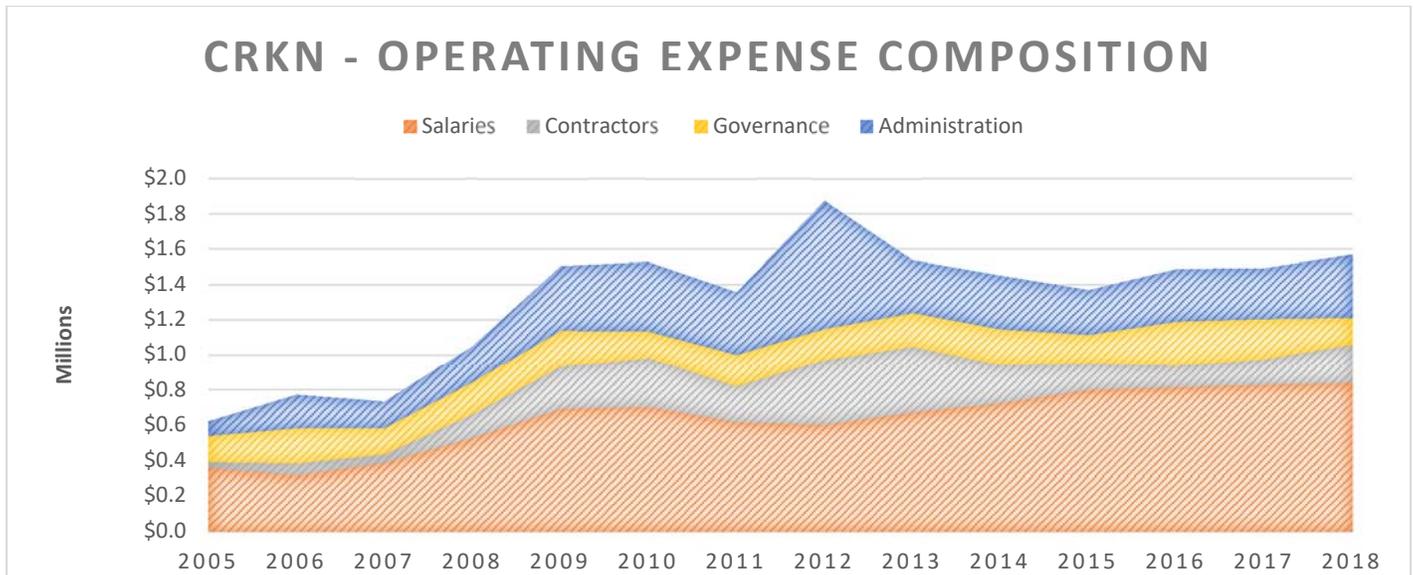


Other Revenue: CRKN continued to raise additional revenue and recover costs where possible including continuing foreign exchange services, recovering some costs for the annual general meeting held in Montreal, qualifying for a fourth YCW grant to fund the Digital Services Intern position, and wage cost recoveries for the ORCID-CA Member Support Specialist. CRKN remains committed to pursuing other revenue options which are tied to its core mandate.

Gain on Canadiana Combination: CRKN was able to realize a significant gain for accounting purposes through the mechanics of the Canadiana.org combination, offset by the potential severance liability assumed in bringing seven staff into CRKN from Canadiana, which is not shown on the statements. CRKN staff have adjusted the financial model to conform to the combination business proposal endorsed by the membership.

Salary and Benefit Expenses: CRKN's payroll expenses were about 7% worse than budgeted, largely on account of unbudgeted costs for the ORCID-CA member support position (which is offset by unbudgeted additional revenues).

Contractor and Professional Fees: Professional fees were less than budgeted, including savings from translation, communications, and human resources contractors that more than offset overages in legal and auditing fees necessitated by the combination



Governance and Meeting Costs

Total meeting and governance costs were less than budgeted, largely due to fewer than budgeted meetings occurring.

Administration Expenses: Administrative expenses were generally ahead of budget, with savings in particular on advertising and graphic design. CRKN spent significantly more than budgeted on office travel and incurred some additional one-time equipment maintenance costs at year end related to the Canadiana combination.

Prospective Analysis

Content Acquisition and Delivery: Most members are considering rationalizing their content budgets, including their purchases through CRKN. CRKN has identified the potential for a drop-off in participation on individual licenses, and the potential cascading effect on CRKN membership, as a significant organizational risk.

The USD continued to exacerbate the effects of rising costs along with shrinking member budgets (although the USD was not as strong as its recent peak in January 2016). CRKN expects to continue the use of forward contracts and to offer additional foreign exchange services, including limited USD denominated invoicing in providing licensed content to members on a 100% cost-recovery basis.

Operations: Membership fees will increase by 2.0% overall in 2018-2019 as approved by the Board, increasing from \$1,308,515 to \$1,334,678. FY2018-2019 will also be the second year of a two-year transition to a new system for allocating membership fees across 13 bands. Integration of the new 13 Band membership fee system, including annual recalculation of the bands and associated membership fees will be completed in 2018/2019. Future membership fee increases, and changes to how membership fees are calculated and administered, will continue to be considered carefully by the Board during its budget deliberations, in consultation with members and in the context of the strategic plan and CRKN's multi-year financial model.

CRKN's administrative and governance expenses (facilities, staff and salary levels, audit fees, committee expenses, travel, etc.) have been reconsidered and extended as part of the Canadiana combination, with CRKN's operating budget very nearly doubling for 2018-2019. CRKN is operating under an extension of the 2013-2016 strategic plan. The Board will initiate a strategic planning process in 2018 with the intent to deliver a new strategic plan for the approval of members during the 2019 AGM. CRKN staff continue to identify and prioritize areas where the organization can best and most efficiently provide value to members.

Multi-year perspective: Six years ago, changes in financial presentation necessitated by the updated Net Assets Policy reduced CRKN's balance of unrestricted net assets to \$961,134— at that time, the lowest level in the organization's brief history. In FY2016-2017, this unrestricted balance increased to \$1,174,043 following a number of modest surpluses. For FY2017/2018, and despite another surplus combined with the one-time gains on combination, the application of the Net Assets Policy to CRKN's larger combined operating budget reduced the balance of unrestricted net assets to \$427,382. The FC will be reviewing the utility of this policy during 2018 to consider the implication of the Canadiana combination.

CRKN staff develop the budget in response to the needs of the members, in accordance with the strategic plan, and this year, based on member support for the Canadiana combination and that associated business plan. The key to CRKN's budget process continues to be the surfacing of a strong consensus on the scope and level of service that the organization needs to offer and maintain, identifying the required resource levels to adequately and efficiently provide those services, and adjusting and sourcing CRKN's revenues to match over a multi-year horizon. CRKN will be developing and adopting a new strategic plan at the October 2019 AGM, and the budget will be adopted and adjusted based on this process.