

Management Discussion and Analysis Year ended March 31, 2019

This Management Discussion and Analysis is intended to accompany and complement CRKN's audited financial statements for the year ended March 31, 2019. Both the Finance and Audit Committee (FAC) and the Board 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 FAC.

CRKN completed its fifteenth year of independent operations as an incorporated Canadian Not-for-Profit on March 31, 2019. 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 and by 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. This fiscal year marked the first year of operating the digitization, access and preservation activities of heritage content previously undertaken by Canadiana.org. CRKN has leveraged the opportunities afforded by the combination with Canadiana.org to focus on the mandate to collaborate with stakeholders to advance digital scholarship in Canada.

CRKN had budgeted for a planned surplus of \$111,000 during the 2018-2019 fiscal year. During the year, the organization realized sufficient one-time cost savings, investment income, and other revenues (including digitization service fees and the Heritage Content Access and Preservation (HCAP) fund) to result in a one-time, higher than normal surplus of \$970,000.

Staff changes this year included the addition of a licensing officer, a member services and licensing officer, a finance officer, a communications coordinator, a platform project manager and several scanning operators. Other developments included the completion of the first year of HCAP fund billing and significant work to advance digitization projects for the Library of Parliament and others. In January 2019, CRKN removed the subscription paywall to Canadiana.ca, and made the [Canadiana](http://Canadiana.ca) collections available at no charge.

Analysis of the March 31, 2019 Financial Statements

Statement of Financial Position

Cash and 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, 2019. CRKN has no concern about the ability to collect its accounts receivable balances, and CRKN continues to maintain adequate financial resources to meet its operational requirements. On February 20, 2019, CRKN received all amounts owing from Canadiana.org (Canadiana.org had no operations during the year and was dissolved as a corporation on March 5, 2019).

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 higher than last year, largely due to the timing of publisher invoicing.

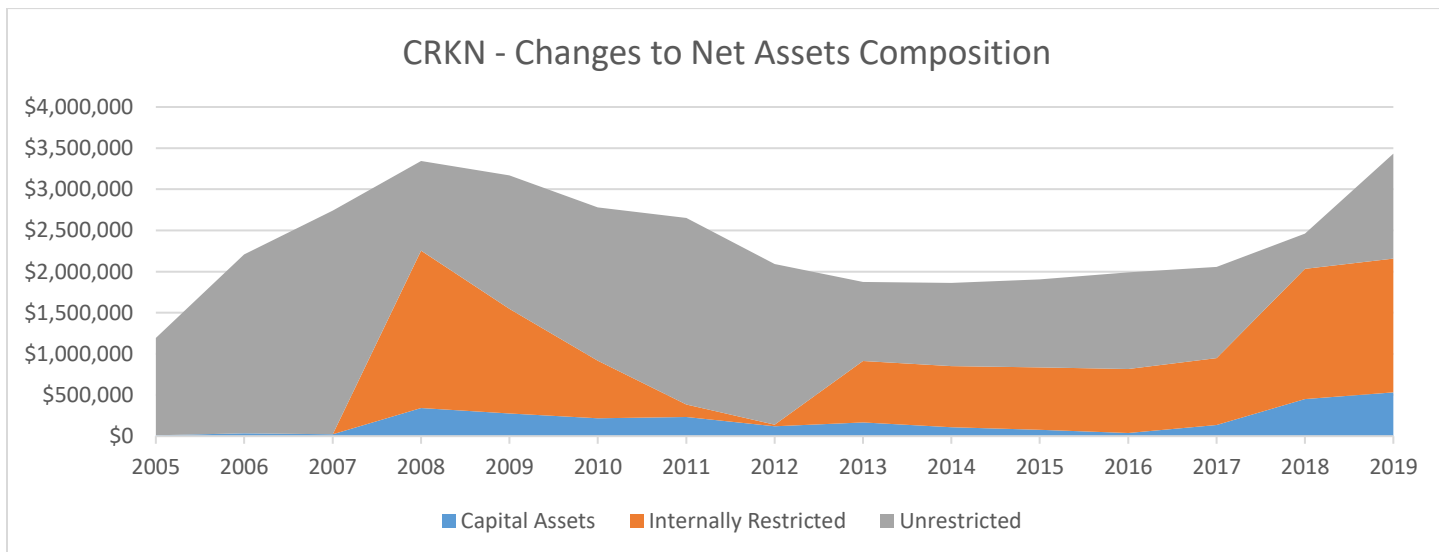
Capital Assets: Finance staff have added new asset categories for digitization equipment, scanners and network switches to reflect the purchase of Canadiana's capital assets. In addition to equipment from Canadiana, CRKN also purchased new digitization equipment, office furniture and servers in FY2018-2019.

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 operations.

Deferred Revenue: CRKN has matched deferred revenue for licensing activities against prepaid license expenditures. As part of the combination with Canadiana.org, CRKN provided services and realized amounts paid to CRKN by members under the Canadiana Online and ECO licenses. CRKN also realized deferred revenue amounts for membership fees and hosting amounts paid to Canadiana for services delivered by CRKN post-combination. The new HCAP fund was set up to transition Canadiana licensing and membership fees to fund digitization, access and preservation services as a program of CRKN beginning January 2019.

Unrestricted and Restricted Net Assets: As recommended by the FAC and in accordance with the recently approved Net Assets Policy, CRKN has internally restricted \$1,628,000 (40% of its approved FY2019-2020 operating budget) of its net assets. The CRKN Board has also recently confirmed policies which set upper limits for CRKN's balance of unrestricted net assets equal to two times its approved operating budget.



Statement of Revenue and Expenses

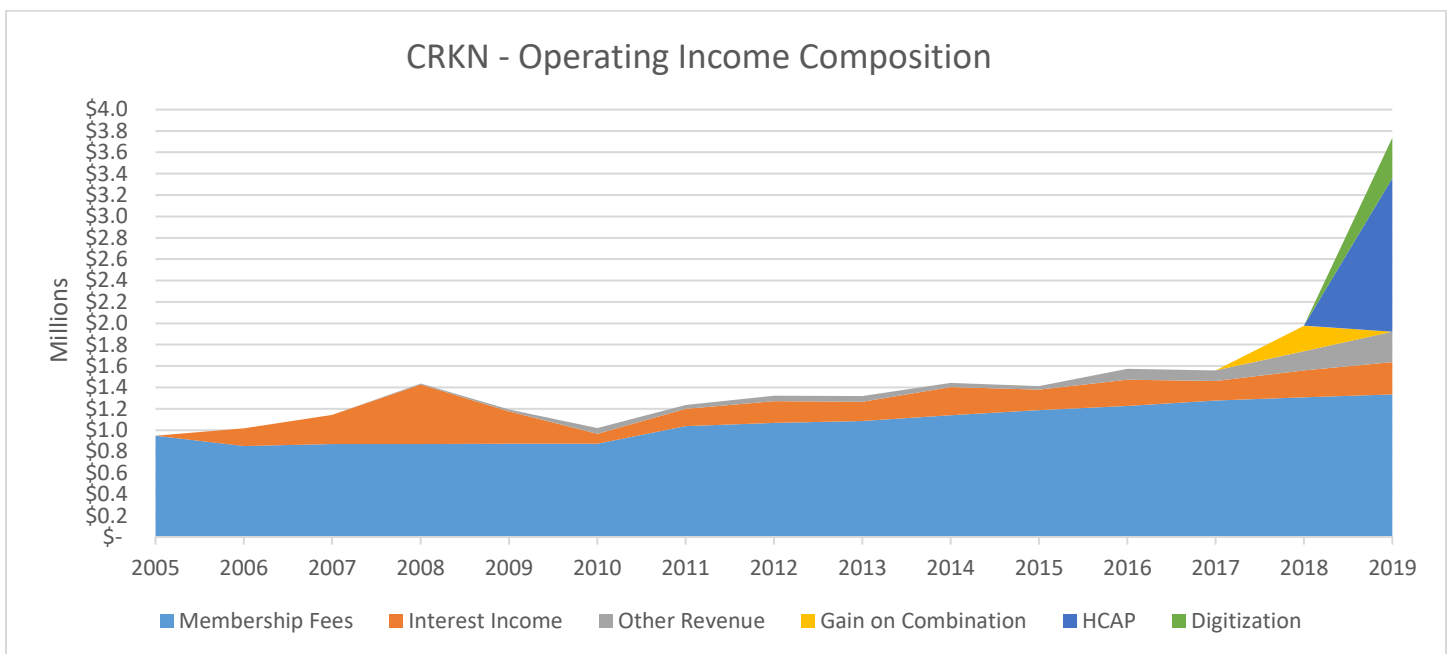
Net License Contribution:

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's license revenue remained consistent with last year (2018-2019 – \$125.4M, 2017-2018 – \$126M). Variations in net revenues are the result of changes in license participation and fluctuations in foreign exchange rates.

Operations Fees: With the approval of members, CRKN began in 2017-2018 a two-year planned move to membership fees based on 13 bands rather than the previous 8 tiers. During the budgeting process for FY2018-2019, the Board approved a membership fee increase of 2.0% total during the year and from \$1,308,515 to \$1,334,678. While CRKN's membership grew to 79 members in 2018-2019, the revenue effects of new Institutional and Associate members will not be realized until FY2019-2020. CRKN continues to use the banding system to set membership fees charged to its 75 university Institutional Members

Interest Revenue: Interest revenue was higher than budgeted with interest rates rising during the year, from 1.80% to 2.65%. Larger-than typical cash balances (including USD balances) in the fourth quarter of the year also augmented CRKN's interest income. CRKN's investment policies limit CRKN's choices to guaranteed investment vehicles. CRKN continues to budget interest income conservatively while continuing to maximize cash flow and corresponding investment returns within the limits set by the Board.



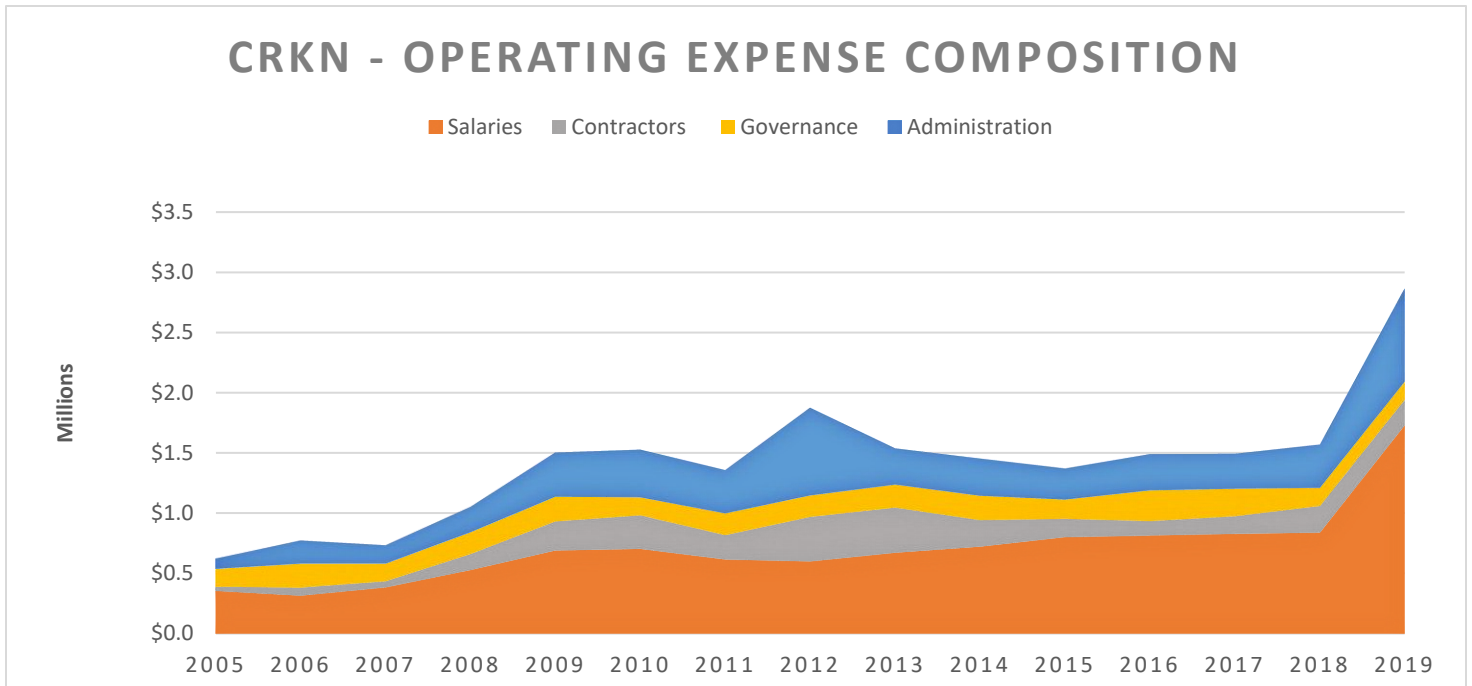
Other Revenue: CRKN continued to raise additional revenue and recover costs where possible, including continuing its Foreign Exchange Service, recovering some costs for the annual general meeting held in Vancouver, qualifying for a Young Canada Works grant to fund the Digital Services Intern position, and building in cost recovery for the ORCID-CA Member Support Specialist. CRKN remains committed to pursuing other revenue options which are tied to its core mandate.

Digitization and HCAP fund revenue Both revenue streams were new in FY2018-2019. CRKN advanced a digitization project for the Library of Parliament during the year, which contributed to a total of \$377,000 revenue from digitization. CRKN invoiced for the first year of the HCAP fund in December 2018. The total HCAP fund revenue realized during FY2018-2019 (including membership fees and subscription amounts transferred from Canadiana.org for the April-December 2018 period) was over \$1.4M. As a result, CRKN exceeded its budgeted revenues by more than \$550,000.

Statement of Revenue and Expenses

Salary and Benefit Expenses: CRKN's payroll expenses were about 7% less than budgeted, largely due to staff turnover and delays in filling and replacing positions.

Contractor and Professional Fees: Professional fees were less than budgeted, including savings on translation, communications, and human resource contractors.



Governance and Meeting Costs

Total meeting and governance costs were less than budgeted, largely due to savings on staff and committee members travel costs.

Administration Expenses: Administrative expenses were generally less than budgeted, with savings in particular on conference expenses, graphic design and advertising. CRKN also spent less than budgeted on professional development and training and general office travel.

Prospective Analysis

Content Acquisition and Delivery: CRKN anticipates few opportunities for new large-scale content acquisition in the near term, and notes that most members are considering rationalizing their content budgets, including their purchases through CRKN. CRKN has identified the potential drop-off of participation in individual licenses, and the potential cascading effect on CRKN membership, as a potential organizational risk.

The USD will likely continue to exacerbate the effects of rising costs along with shrinking member budgets. CRKN staff will continue to use forward contracts and offer additional foreign exchange services, including limited USD denominated invoicing, to provide licensed content to members on a 100% cost-recovery basis.

Operations: Membership fees will increase by 2.0% overall in 2019-2020 as approved by the Board, increasing from \$1,334,678 to \$1,361,585. FY2019-2020 will be the third year of allocating membership fees across 13 bands. 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.

The Board initiated a strategic planning process in 2018 including an extensive member and stakeholder consultation and will present a plan for members to review and discuss at the Annual Meeting of the Members in October 2019. CRKN staff continue to identify and prioritize areas where the organization can provide value to members.

Multi-year perspective: Seven 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 May 2019, considering the growth of the organization, the FAC recommended changes to restricted net assets from 50% to 40% of the following year's operating budget. The change was approved by the Board and is reflected in the 2018-2019 Financial Statements.

CRKN staff develop the budget in response to the needs of the members, in accordance with the strategic 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 those needs over a multi-year horizon. With a strategic planning process underway, staff will develop the 2020-2021 and subsequent budgets based on the operational demands of the new strategic plan.