

Management Discussion & Analysis Year ended March 31, 2016

This Management Discussion & Analysis should be read in conjunction with CRKN's audited financial statements for the year ended March 31, 2016. The audited financial statements and notes, the associated summary financial statements, and this document are reviewed by the Finance & Audit Committee and approved by the Board of Directors prior to distribution to the membership.

CRKN completed its twelfth year of operations as an incorporated Canadian Not-for-Profit on March 31, 2016. 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.

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. The Independent Auditor's Report that precedes the financial statements confirms that the financial statements presented fairly reflect the financial position and results of CRKN operations for the year ended March 31, 2016. Once again, no areas of concern or improvement were identified in either a management letter or in the auditor's year-end communication to the Finance & Audit Committee.

Executive Summary

Financial results reflect the final year of CRKN's 2013-2016 Strategic Plan, a plan the membership endorsed extending at the 2015 AGM in Ottawa. As CRKN continues its commitment to making digital content available to the academic research enterprise in Canada on a cost-effective, stable, and predictable basis, it has expanded its mandate to collaborate with allied stakeholders to advance digital scholarship in Canada.

Although CRKN had budgeted a planned deficit of over \$60,000, it was able to realize enough one-time cost savings, investment income and other revenues to achieve a modest surplus, the second surplus in as many years. The eighth successive budgeted deficit remains in line with CRKN's multi-year model, intended to gradually and predictably return the organization to a balanced budget.

CRKN continues to fund operations internally without drawing on its credit facility by prudently monitoring cash flows, and continues to subsidize its operating activities with interest and other revenue. Its multi-year financial objectives continue to be reducing reliance on investment income, controlling costs and drawing 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.

Of major note this year was the hiring of Kimberly Silk as IDSE Special Projects Officer (May 2015) and David Purdy as term Digital Heritage Project Analyst (February 2016), the recruitment of Rebecca Ross as a contract communications consultant (December 2015), significant work by the Model License Task Group and Institutional Mobilization Task Group, the successful completing of an LAC Digital Heritage grant submission for the CNDHI-IPNPC.ca project, and a well-attended and successful AGM in Ottawa in October 2015, jointly hosted with the Canadian Association of Research Libraries (CARL).

Analysis of the March 31, 2016 Financial Statements

Statement of Financial Position

Cash & receivables balances: Publisher invoicing delays created another unusually high cash balance at March 31, 2016, although receivables were significantly lower than last year. CRKN continues to maintain adequate financial resources to meet its operational requirements.

Government remittances payable/receivable: CRKN continues to disclose these amounts separately on its statement of financial position in accordance with Not-for-Profit accounting standards. The periodic nature of CRKN's licensing operation often results in very significant commodity tax payable or recoverable balances.

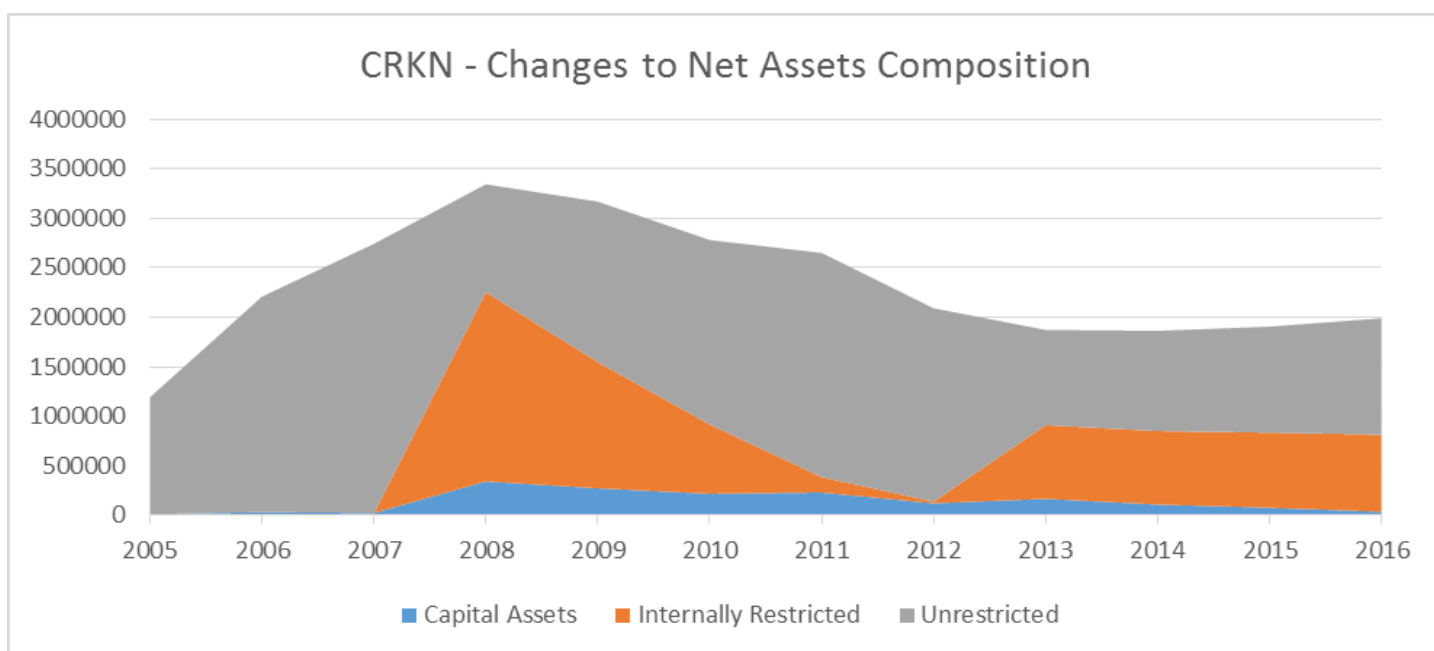
Prepaid licenses and deferred revenue for license fees: CRKN realizes its license expenses and its corresponding license revenue on a monthly basis as license access is provided. As a result, CRKN typically has significant, offsetting prepaid license and deferred revenue amounts. The balances are higher at March 31, 2016 than a year ago, reflecting in part the effects of a weaker CAD on predominantly USD-denominated license commitments.

Capital Assets: CRKN continues to draw down the balance of capital assets, consisting predominantly of leasehold improvements at March 31, 2016. CRKN's existing leasehold improvements will be completely amortized by March 31, 2017. CRKN completed a lease renegotiation for its existing space (to March 31, 2022) in May 2016. CRKN envisions only very minor additional leasehold improvements in the near future.

Accounts payable and accrued liabilities: CRKN's payables balance continues to be driven almost completely by variations in the license cycle from year to year. In this instance, two significant license invoices were received late and were outstanding at March 31st.

Unrestricted and Restricted Net Assets: As part of its budget approval process for FY2016-17, and in accordance with its Net Assets policy, CRKN has internally restricted \$778,260 (1/2 of its approved FY16-17 operating budget) of its net assets.

Note that unrestricted net assets have increased for a third straight year and from \$961,134 at March 31, 2013 to \$1,174,043 this year. The most recent change is due to a net reduction in capital assets and another operating surplus in FY15-16. As seen below, CRKN's net asset composition has stabilized since CRKN's move to new premises in April 2012.



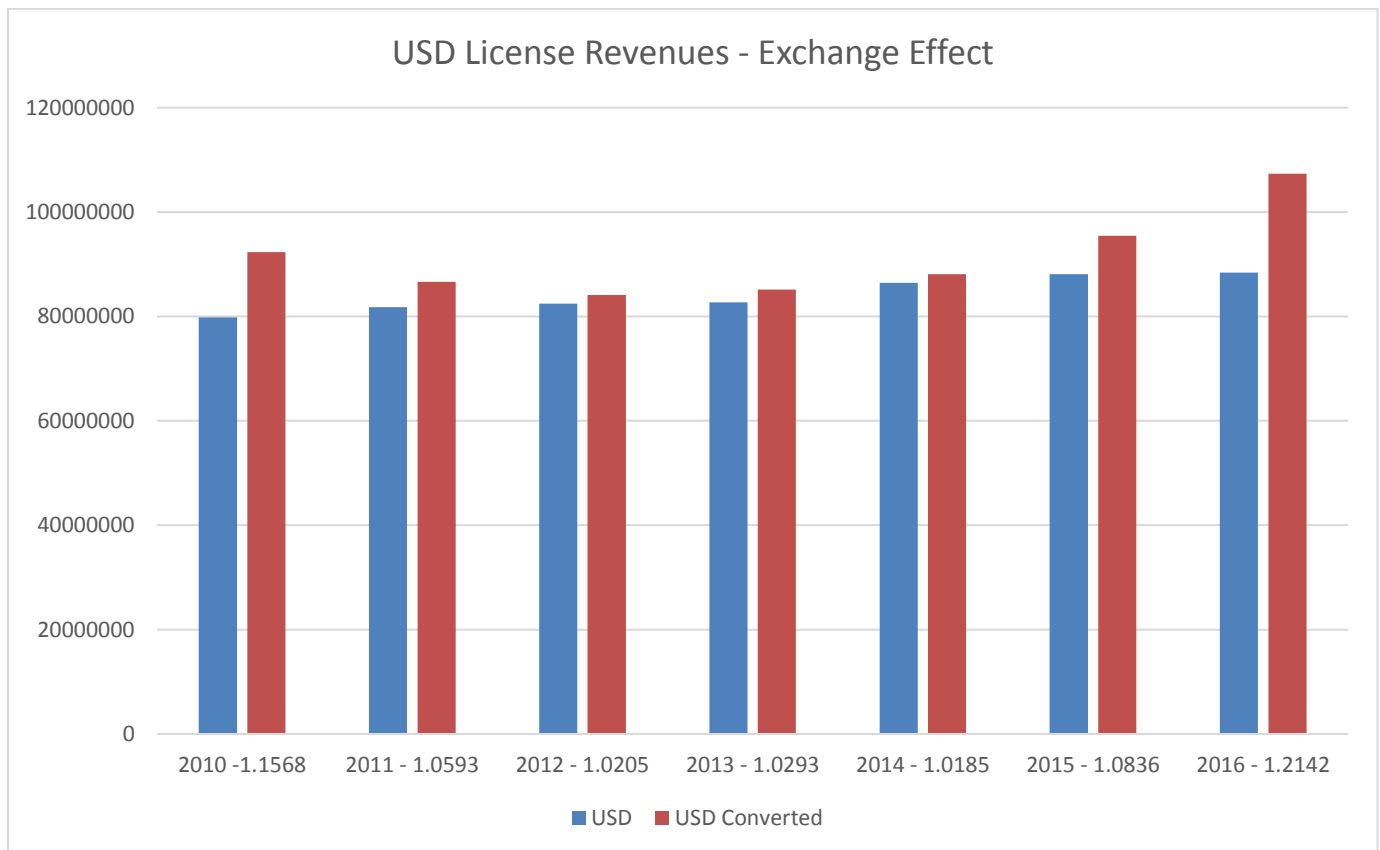
Statement of Revenue and Expenses

Net License Contribution:

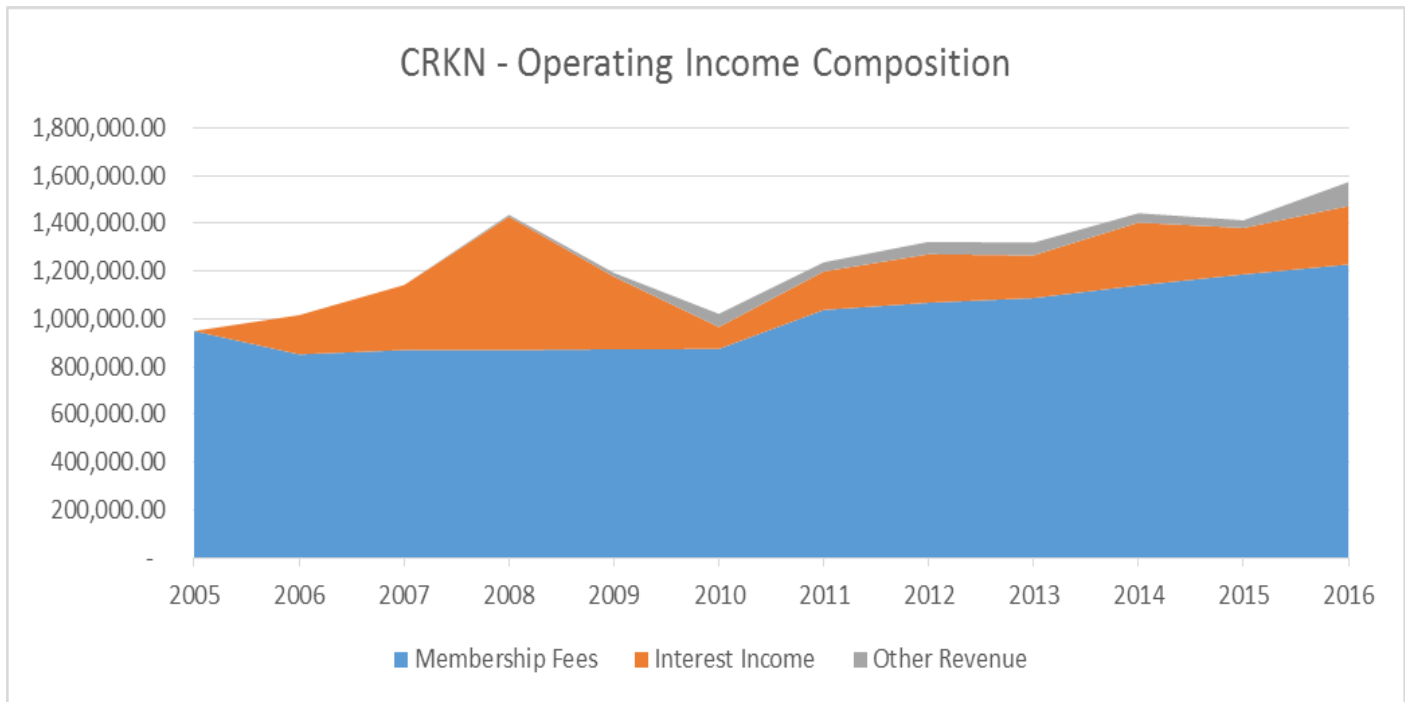
Because CRKN bills members for 100% of its license costs, and because it matches the realization of licensing revenues and expenditures monthly based on the relevant license period, the net licensing contribution is ordinarily zero.

CRKN experienced another significant year of revenue growth, spurred in particular by increases in USD-denominated content. As in past years, variations in net revenues are driven as much by fluctuations in the strength of the Canadian dollar as by changes in license activity:

- CRKN's total license revenue has increased for each of the past three years (and this year is easily a record for CRKN)
- In nominal (i.e. using 2009-10 FX rate) terms, FY15-16 was second only to FY14-15 in licensing activity.
- Total USD-denominated license revenue has increased each year over the past seven, and is over \$88M USD in FY2015-16.
- Moreover, CRKN's USD license revenue (nearly 96% of total CRKN revenue) was realized at an average rate of 1.2142 – twelve percent higher than last year, and the highest rate on record for CRKN since 2009-10. It is expected that this average rate may well increase again next fiscal year.
- CAD-denominated content was down nearly 17% compared to last year, and content in GBP was down nearly 12%.



Statement of Revenue and Expenses

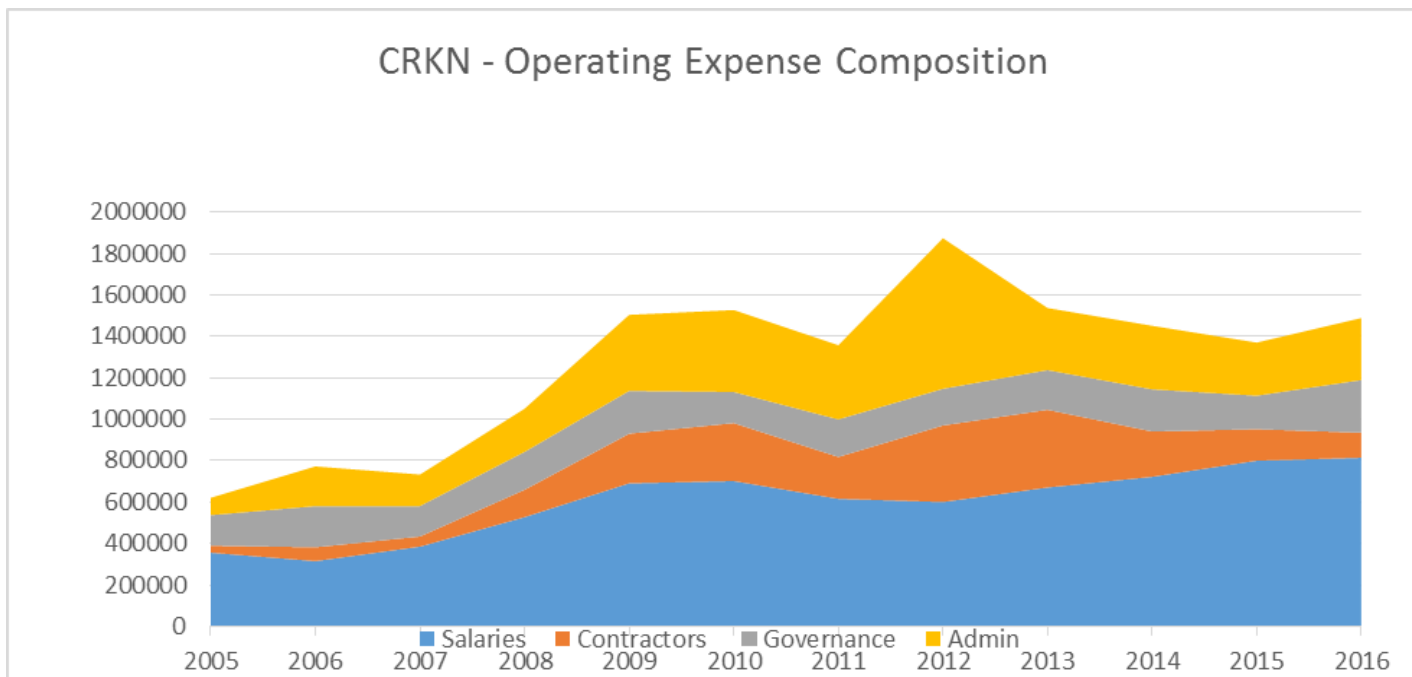


Operations Fees: With Board approval and in accordance with its multi-year plan to return to a balanced budget, CRKN increased membership fees in FY2015-16 by 3.5%; from \$1,185,955 to \$1,227,452. CRKN's membership held constant at 75 members for the year.

Interest Revenue: Interest revenue was more than \$64,000 ahead of budget, on account of strong average daily cash balances during the year. Although interest rates are still very low in historic terms (averaging 1.09% for CRKN this year), CRKN benefited from record daily cash balances averaging over \$20 million dollars. Management continues to develop plans which are not reliant on interest revenue, while working to maximize cash flow and corresponding investment returns within the limits set by the Board.

Other Revenue: CRKN continued to work to raise additional revenue and recover costs where possible including launching a fourth foreign exchange project, hosting and sharing costs for the 2015 AGM with CARL, and successfully obtaining and satisfying a grant from LAC for the Canadian National Digital Heritage Index (cndhi-ipnpc.ca) project. CRKN remains committed to pursuing other revenue options which tie to its core mandate.

Statement of Revenue and Expenses



Salary and Benefit Expenses: Payroll expenses during the year were very close to budgeted, based on a stable staff complement for much of the year. CRKN added a budgeted Digital Services Intern, and an unbudgeted summer student and LAC-funded CNDHI-IPNPC project analyst to add capacity on a term contract basis during the year.

Professional Fees: Professional fees were significantly under budget since amounts which had been budgeted for contingencies were not used, translation activity was less than budgeted, and CRKN scaled back its strategic planning activities from budget. A contract communications support person was added in December 2015.

Administration Expenses: Administrative costs were higher than budgeted during the year, primarily because of unbudgeted work on the CNDHI-IPNPC site (offset by a Digital Heritage grant from LAC), and increased office admin travel costs.

Meeting Costs

CRKN's AGM costs were higher than anticipated, but CRKN raised a larger, offsetting amount by hosting a joint AGM with CARL in October 2015. Other revenue includes cost recoveries from CARL as a result. Otherwise, CRKN's meeting costs were in line with budget, including in-person meetings for the IMTG and MLTG. CRKN continues to make use of standing committees and task groups to address the routine and periodic challenges.

Meals, Travel and Accommodations: Meals, travel and accommodation represent the travel of staff and committee members for activities unrelated to the administration of the CRKN board, standing committees and subcommittees. CRKN has adjusted its outreach approach recently to allow for more face-to-face interaction with the member and stakeholder communities.

Amortization: CRKN was slightly under-budget for amortization during the year and amortization has been dropping as the net book value of its capital assets decline. CRKN has budgeted to significantly revamp – and capitalize – its website in 2016-17.

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. Additional reductions in license participation were noted during the year, exacerbated by the Canadian dollar falling to 10-year lows in early 2016.

CRKN expects to continue the use of forward contracts and limited USD-denominated invoicing in providing licensed content to members on a 100% cost-recovery basis.

Operations: Board-approved membership fees will increase by 4.0% in 2016-17, from \$1,227,452 to \$1,276,561. During the year, the membership endorsed a plan to move CRKN to a system of membership fees based on the thirteen bands recommended by the Banding Task Group, and beginning in FY17-18. Future membership fee increases, and changes to how membership fees are calculated and administered, will continue to be considered carefully by the Board, in consultation with members and in the context of the strategic plan and CRKN's multi-year financial model.

Core administrative and governance expenses (facilities, staff and salary levels, audit fees, committee expenses, travel, AGM costs) are expected to remain relatively static, based on CRKN's updated committee structure and the extension of CRKN's 2013-2016 strategic plan. The IDSE project continues to pose questions on how CRKN might engage with, contribute to and support the larger digital scholarly community in Canada. This may involve an extension of financial commitment and/or an application for special project funding. CRKN continues to work carefully on numerous fronts to identify and prioritize areas where the organization can best and most efficiently provide value to members.

Multi-year perspective: Three years ago, changes in financial presentation necessitated by the updated Net Assets policy reduced CRKN's unrestricted net assets balance to \$961,134, its lowest level in five years. For FY2015-16, this unrestricted balance has increased to \$1,174,043 due to significant reductions in unamortized capital assets, and a modest surplus over the last three years.

According to its multi-year model, CRKN continues to use its accumulated equity in a planned and measured way while adjusting its reliance on interest income to fund operations, matching membership fees with the demands for organizational resources. The most recent multi-year financial model now suggests that CRKN will be able to balance its budget in FY17-18, assuming no significant changes in organizational scope.

The FY16-17 budget was crafted using the strategic priorities and objectives from the 2013-2016 Strategic Plan, even as CRKN is working to update its objectives in consultation with its stakeholders. As mentioned previously, the practical financial implications of the Integrated Digital Scholarly Ecosystem (IDSE) work in the medium- to long-terms are still to be determined.

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.