

Financial Statements of

**OCEAN NETWORKS
CANADA SOCIETY**

Year ended March 31, 2015



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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, 2015, 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, 2015, 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 Society 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 Accountants

June 25, 2015

Victoria, Canada

OCEAN NETWORKS CANADA SOCIETY

Statement of Financial Position

March 31, 2015, with comparative figures for 2014

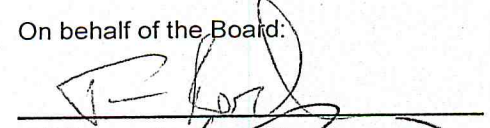
	2015	2014
Assets		
Current assets:		
Accounts receivable	\$ 3,043,714	\$ 4,117,307
Prepaid expenses	-	774,535
	<u>3,043,714</u>	<u>4,891,842</u>
Capital assets (note 2)	4,837,060	2,710,936
	<u>\$ 7,880,774</u>	<u>\$ 7,602,778</u>

Liabilities and Net Assets

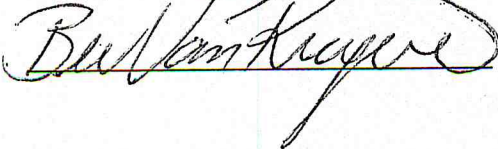
Current liabilities:		
Accounts payable and accrued liabilities	\$ 570,148	\$ 2,045,989
Due to University of Victoria	651,606	1,858,646
Deferred revenue	57,305	5,062
	<u>1,279,059</u>	<u>3,909,697</u>
Deferred contributions (note 3)	1,551,660	754,012
Unamortized deferred capital contributions (note 4)	4,830,667	2,702,204
Net assets		
Invested in capital assets	6,393	8,732
Unrestricted	212,995	228,133
	<u>219,388</u>	<u>236,865</u>
Commitments (note 8)		
	<u>\$ 7,880,774</u>	<u>\$ 7,602,778</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, 2015, with comparative figures for 2014

	2015	2014
Revenue:		
Government of Canada (note 5)	\$ 6,872,274	\$ 3,216,065
Miscellaneous	194,169	145,710
Province of British Columbia	24,000	-
Amortization of deferred capital contributions	925,883	424,806
	<u>8,016,326</u>	<u>3,786,581</u>
Expenses:		
Operational expenses (note 6)	4,489,086	582,729
Salaries and benefits	1,707,555	1,523,379
Consulting fees	602,866	605,604
Travel	182,081	229,745
Supplies	76,912	382,399
Hospitality	23,916	27,440
Professional fees	23,165	24,702
Amortization of capital assets	928,222	428,013
	<u>8,033,803</u>	<u>3,804,011</u>
Deficiency of revenue over expenses	<u>\$ (17,477)</u>	<u>\$ (17,430)</u>

See accompanying notes to financial statements.

OCEAN NETWORKS CANADA SOCIETY

Statement of Changes in Net Assets

Year ended March 31, 2015, with comparative figures for 2014

	Invested in capital assets	Unrestricted	Total
Net assets, March 31, 2013	\$ 11,939	\$ 242,356	\$ 254,295
Deficiency of revenue over expenses	(3,207)	(14,223)	(17,430)
Net assets, March 31, 2014	8,732	228,133	236,865
Deficiency of revenue over expenses	(2,339)	(15,138)	(17,477)
Net assets, March 31, 2015	\$ 6,393	\$ 212,995	\$ 219,388

See accompanying notes to financial statements.

OCEAN NETWORKS CANADA SOCIETY

Statement of Cash Flows

Year ended March 31, 2015, with comparative figures for 2014

	2015	2014
Cash provided by (used in):		
Operations:		
Deficiency of revenue over expenses	\$ (17,477)	\$ (17,430)
Items not involving cash:		
Amortization of deferred capital contributions	(925,883)	(424,806)
Amortization of capital assets	928,222	428,013
Increase (decrease) in deferred contributions related to operations	797,648	(6,022,384)
Change in non-cash operating working capital:		
Decrease (increase) in accounts receivable	1,073,593	(148,857)
Decrease (increase) in prepaid expenses	774,535	(691,875)
Increase (decrease) in accounts payable and accrued liabilities	(1,475,841)	1,878,716
Increase (decrease) in deferred revenue	52,243	(1,872)
	<u>1,207,040</u>	<u>(5,000,495)</u>
Capital:		
Acquisition of capital assets	(3,054,346)	(3,035,522)
Financing:		
Change in due to University of Victoria	(1,207,040)	5,000,495
Funding allocated to deferred capital contributions	3,054,346	3,035,522
	<u>1,847,306</u>	<u>8,036,017</u>
Cash position, beginning of year	-	-
Net change in cash and cash, end of year	\$ -	\$ -

See accompanying notes to financial statements.

OCEAN NETWORKS CANADA SOCIETY

Notes to Financial Statements

Year ended March 31, 2015

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 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, 2015

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 7).

(e) 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, 2015

2. Capital assets:

March 31, 2015			
	Cost	Accumulated amortization	Net book value
Furniture and equipment	\$ 3,587,902	\$ 218,721	\$ 3,369,181
Computer equipment	2,048,201	1,002,586	1,045,615
Computer software	524,128	154,126	370,002
Patents	59,814	7,552	52,262
	<u>\$ 6,220,045</u>	<u>\$ 1,382,985</u>	<u>\$ 4,837,060</u>
March 31, 2014			
	Cost	Accumulated amortization	Net book value
Furniture and equipment	\$ 1,006,616	\$ 86,124	\$ 920,492
Computer equipment	1,983,136	349,850	1,633,286
Computer software	142,181	28,355	113,826
Patents	45,613	2,281	43,332
	<u>\$ 3,177,546</u>	<u>\$ 466,610</u>	<u>\$ 2,710,936</u>

3. Deferred contributions:

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

	2015	2014
Balance, beginning of year	\$ 754,012	\$ 2,876,396
Contributions received	10,748,269	3,900,000
	<u>11,502,281</u>	<u>6,776,396</u>
Transfers to revenue	(6,896,275)	(2,986,862)
Transfers to unamortized deferred capital contributions	(3,054,346)	(3,035,522)
	<u>(9,950,621)</u>	<u>(6,022,384)</u>
Balance, end of year	<u>\$ 1,551,660</u>	<u>\$ 754,012</u>

Deferred contributions at March 31, 2015 comprise unspent Government of Canada contributions which are restricted in use to delivering the Innovation Centre Business Plan. Future expenditures may be operating or capital in nature.

OCEAN NETWORKS CANADA SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2015

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:

	2015	2014
Balance, beginning of year	\$ 2,702,204	\$ 91,488
Transfers from deferred contributions	3,054,346	3,035,522
	5,756,550	3,127,010
Transfers to revenue	(925,883)	(424,806)
Balance, end of year	\$ 4,830,667	\$ 2,702,204

5. Government of Canada:

Government of Canada revenue is comprised of the following:

	2015	2014
Transport Canada	\$ 4,200,000	\$ -
Natural Sciences and Engineering Research Council	1,148,315	2,696,274
Western Economic Diversification Canada	678,100	290,588
CANARIE	475,874	159,203
Social Sciences and Humanities Research Council	369,985	70,000
	\$ 6,872,274	\$ 3,216,065

OCEAN NETWORKS CANADA SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2015

6. Related party transactions:

Operational expenses include \$4,200,000 (2014 - \$nil) 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 and cash management and premises rental, all of which were 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.

During the year, ONCS purchased goods and services totaling \$97,002 (2014 - \$379,024) from ASL Environment Sciences Inc., a company controlled by a director.

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

7. Contributed materials and services:

Materials and services received by ONCS during the year for which fair value was reasonably estimable were \$6,921,717 (2014 - \$3,304,009). These materials and services were contributed principally by IBM Canada Ltd. at no cost to ONCS for information and communications technology and public engagement initiatives of ONCS. These transactions are not reflected in these financial statements.

OCEAN NETWORKS CANADA SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2015

8. 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 2016 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, 2015, approximately \$24.6 million of the budget commitment has been incurred, including \$6.9 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).

An additional program which funds the operations of the Smart Oceans Contribution Program through to March 31, 2017 has a budget commitment of \$53.9 million, 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 Transport Canada, Canada Foundation for Innovation, the University of Victoria, and BC Ferries. The Society is committed to purchasing \$15.8 million of services from the University of Victoria over the remaining term of this program.

From April 1, 2014 a new grant of \$4,396,799 has been approved 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, 2017.