Vector Institute
Financial Statements
For the year ended March 31, 2020

Contents

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Independent Auditor's Report

To the Directors of Vector Institute

Opinion

We have audited the financial statements of Vector Institute (the Institute), which comprise the statement of financial position as at March 31, 2020 and the statements of operations, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Institute as at March 31, 2020, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Institute in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, 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.

In preparing the financial statements, management is responsible for assessing the Institute's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Institute or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institute's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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Independent Auditor's Report (continued)

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Institute's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Institute to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Mississauga, Ontario
September 23, 2020

Vector Institute
Statement of Financial Position

March 31	2020	2019
Assets		
Current		
Cash and cash equivalents (Note 1)	**$ 29,080,279**	$ 59,919,382
Short-term investments (Note 1)	**28,000,614**	-
Accounts receivable	**2,328,888**	3,545,872
Current portion of employee loans (Note 2)	**279,306**	194,443
HST rebate receivable	**48,681**	109,887
Prepaid expenses	**283,011**	53,240
	60,020,779	63,822,824
Employee loans (Note 2)	**1,426,573**	1,163,666
Capital assets (Note 3)	**6,169,573**	5,897,982
	$ 67,616,925	$ 70,884,472
Liabilities and Net Assets		
Current		
Accounts payable and accrued liabilities	**$ 3,596,301**	$ 3,529,682
Deferred rent	**941,542**	1,209,424
Deferred contributions (Note 4)	**28,667,883**	41,137,062
Deferred capital contributions (Note 5)	**5,310,165**	4,751,919
	38,515,891	50,628,087
Net Assets		
Unrestricted net assets	**29,101,034**	20,256,385
	$ 67,616,925	$ 70,884,472

Commitments (Note 6)

On behalf of the Board:

_______________ Director

_______________ Director

The accompanying notes are an integral part of these financial statements.

Vector Institute
Statement of Operations

For the year ended March 31	2020	2019
Revenue		
Government grants		
Province of Ontario	**$ 10,276,610**	$ 9,158,460
Federal Government	**5,535,881**	5,817,138
Industry partners	**8,708,307**	12,520,983
Amortization of deferred capital contributions	**1,747,992**	1,390,606
Investment income	**802,573**	316,329
Fees for service	**287,759**	200,728
Materials acceleration project	**-**	125,838
	27,359,122	29,530,082
Expenses		
Research and education (Note 7)	**6,577,168**	5,936,770
Industry skills training (Note 7)	**666,075**	602,951
Technology adoption (Note 7)	**3,399,754**	2,324,866
Business acceleration (Note 7)	**440,764**	1,500,000
General and administration (Note 7)	**3,635,128**	3,671,656
RAISE AI	**1,797,007**	1,382,812
Materials acceleration project	**-**	125,838
Employee loans accretion expense (recovery) (Note 2)	**(82,300)**	121,891
Amortization	**2,080,877**	1,390,606
	18,514,473	17,057,390
Excess of revenue over expenses for the year	**$ 8,844,649**	$ 12,472,692

The accompanying notes are an integral part of these financial statements.

Vector Institute
Statement of Changes in Net Assets

For the year ended March 31			**2020**	2019
	Invested in Capital Assets	**Unrestricted**	**Total**	Total
Net assets, beginning of year	**$ -**	**$ 20,256,385**	**$ 20,256,385**	$ 7,783,693
Excess of revenue over expenses for the year	**-**	**8,844,649**	**8,844,649**	12,472,692
Purchase of capital assets	**2,352,469**	**(2,352,469)**	**-**	-
Deferred funding for capital assets	**(2,352,469)**	**2,352,469**	**-**	-
Net assets, end of year	**$ -**	**$ 29,101,034**	**$ 29,101,034**	$ 20,256,385

The accompanying notes are an integral part of these financial statements.

Vector Institute
Statement of Cash Flows

For the year ended March 31	2020	2019
Cash was provided by (used in)		
Operating activities		
Excess of revenue over expenses	**$ 8,844,649**	$ 12,472,692
Adjustments required to reconcile excess of revenue over expenses to net cash provided by operating activities		
Amortization of capital assets	**2,080,877**	1,390,606
Amortization of deferred capital contributions	**(1,747,992)**	(1,390,606)
Amortization of lease inducement	**(332,885)**	-
Employee loans accretion and forgiveness	**152,230**	216,891
Changes in non-cash working capital balances		
Accounts receivable	**1,216,984**	(775,570)
HST rebate receivable	**61,206**	142,453
Prepaid expenses	**(229,771)**	16,841
Accounts payable and accrued liabilities	**66,619**	1,519,262
Deferred contributions	**(12,469,179)**	9,457,072
Deferred rent - straight line lease	**18,774**	63,361
	(2,338,488)	23,113,002
Investing activities		
Purchase of capital assets	**(2,352,469)**	(4,109,588)
Cash advanced to employees	**(500,000)**	(1,575,000)
Purchase of short-term investments	**(28,000,614)**	-
	(30,853,083)	(5,684,588)
Financing activities		
Increase in deferred capital contributions	**2,306,238**	2,963,525
Deferred rent - lease inducement	**46,230**	1,146,063
	2,352,468	4,109,588
(**Decrease) increase in cash during the year**	**(30,839,103)**	21,538,002
Cash and cash equivalents, beginning of year	**59,919,382**	38,381,380
Cash and cash equivalents, end of year	**$ 29,080,279**	$ 59,919,382
Cash and cash equivalents consist of		
Cash	**$ 29,080,279**	$ 41,852,008
Guaranteed investment certificate (GIC)	**-**	18,067,374
	$ 29,080,279	$ 59,919,382

The accompanying notes are an integral part of these financial statements.

1. Significant Accounting Policies

Nature and Purpose of Organization

The Vector Institute ("the Institute") is a not-for-profit corporation whose goal is to drive excellence and leadership in Canada's knowledge, creation, and use of artificial intelligence to foster economic growth and improve the lives of Canadians.

The Institute was incorporated without share capital on February 9, 2017 under the Canada Not-for-profit Corporations Act.

Basis of Accounting

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.

Revenue Recognition

The Institute follows the deferral method of accounting for revenue, whereby restricted sources of revenue are recognized as revenue in the year in which the related expenses are incurred. Unrestricted sources of revenue are recognized as revenue when received or receivable.

Capital Assets

Capital assets are recorded at cost less accumulated amortization. Amortization, based on the estimated useful life of the assets, is calculated as follows:

Computer servers and equipment	- straight line over 4 years
Workstations	- straight line over 3 years
Leasehold improvements	- straight line over the term of the lease

Financial Instruments

Financial instruments are recorded at fair value when acquired or issued. In subsequent periods, financial instruments are reported at amortized cost less impairment when changes in circumstances indicate the asset could be impaired. Transaction costs on the acquisition, sale or issue of financial instruments are charged to the financial instrument for those measured at amortized cost.

Pension Plan

The Institute maintains a defined contribution pension plan for their employees. Included in operating expenditures is $416,111 (2019 - $61,954) for the Institute's portion of this plan.

1. Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future. Key estimates include allowance for doubtful accounts and inputs used to calculate the present value of employee loans.

Deferred Capital Contributions

Deferred capital contributions represent funds to be used to cover costs incurred on specific capital assets. Deferred capital contributions are amortized concurrently with the amortization of capital assets acquired. Net assets invested in capital assets represents the net value of assets acquired less deferred capital contributions and lease inducement.

Allocation of Expenses

The Institute manages various programs. The costs of each program include the salaries and benefits, office supplies, and other expenses directly related to the program. The Institute also incurs rent expense that is common to each of the programs. Rent is apportioned based on allocated work spaces to each program.

Deferred Rent

The Institute has an operating lease that contains predetermined fixed escalations of minimum rentals during the lease term. The Institute recognizes the related rental expense on a straight-line basis over the life of the lease and records the difference between the amounts charged to operations and amounts paid as deferred rent. This amount is recorded as deferred rent in the early years of the lease, when cash payments are generally lower than the straight-line rent expense, and reduced in the later years of the lease when payments begin to exceed the straight line expense.

The Institute also received a lease inducement. This is recorded as deferred rent at the beginning of the lease term and recognized over the lease term on a straight line basis as a reduction of rent expense.

At March 31, 2020 the straight line lease liability is $82,135 (2019 - $63,361) and the lease inducement is $859,407 (2019 - $1,146,063).

1. Significant Accounting Policies (continued)

Cash Equivalents

Cash equivalents in 2019 were redeemable GICs totalling $18,000,000.

Short Term Investments

Short term investments are comprised of two non-redeemable GICs in the total amount of $28,000,000 bearing interest at 1.60%, maturing May 29, 2020 and June 1, 2020 respectively.

2. Employee Loans

The loans are unsecured, non interest bearing with maturity dates ranging from December 2022 to August 2028. The loans are fully forgivable, with exception, in equal annual amounts on the anniversary date of when the loan was granted. At the time of termination of an employee, the unforgiven amount of a loan is payable within 5 days. Termination can be for any reason, including but not limited to resignation, retirement or death.

Employee loans accretion expense is the change in amortized cost of the employee loans. Loan forgiveness of $225,000 was recognized in general and administration, and research and education expense groupings (Note 7). The loan forgiveness for the next five years and thereafter is as follows:

2021	$ 279,306
2022	315,531
2023	250,814
2024	207,086
2025	153,991
Thereafter	499,151
	$ 1,705,879

3. Capital Assets

	2020 Cost	2020 Accumulated Amortization	2019 Cost	2019 Accumulated Amortization
Computer servers and equipment	**$ 5,114,987**	**$ 1,519,588**	$ 2,796,927	$ 479,016
Workstations	**277,195**	**169,736**	328,761	114,558
Leasehold improvements	**4,606,726**	**2,140,011**	4,520,751	1,154,884
	$ 9,998,908	**$ 3,829,335**	$ 7,646,439	$ 1,748,457
Net book value		**$ 6,169,573**		$ 5,897,982

4. Deferred Contributions

Deferred contributions include unspent grants representing funding received in the current year that is related to subsequent years. The change in the deferred contributions balance is as follows:

	2020	2019
Balance, beginning of year	**$ 41,137,062**	$ 31,679,990
Contributions received	**200,000**	21,579,057
Amounts recognized as revenue during the year		
Province of Ontario	**(10,276,610)**	(9,158,460)
Federal Government	**(86,331)**	-
Amounts deferred for capital purposes (Note 5)	**(2,306,238)**	(2,963,525)
Balance, end of year	**$ 28,667,883**	$ 41,137,062

5. Deferred Capital Contributions

Deferred capital contributions represent the unamortized amount of the funding received for the purchase of capital assets. The amortization of deferred capital contributions is recorded as revenue in the statement of operations. The deferred capital contributions balance is comprised as follows:

	2020	2019
Balance, beginning of year	**$ 4,751,919**	$ 3,179,000
Contributions received for capital purposes	**2,306,238**	2,963,525
Less: current year amortization	**1,747,992**	1,390,606
Balance, end of year	**$ 5,310,165**	$ 4,751,919

6. Commitments

a) Office Premises

The Institute is committed to a five year lease for the office premises expiring on September 30, 2022.

The minimum annual lease payments for the next three years are as follows:

2021	$ 750,944
2022	786,145
2023	410,672
	$ 1,947,761

b) Pathfinder Projects

The Institute is committed to providing up to $205,000 for five different Pathfinder Projects. These are small-scale efforts designed to produce results in 12-18 months that guide future research and technology adoption. Each project is chosen for its potential to help identify a "path" through which world-class machine learning research can be translated into widespread benefits for patients.

c) Forgivable Loans and Allowances

The Institute entered into contracts with employees and committed to various future payments related to forgivable loans and allowances. The maximum payment committed in addition to the loans already advanced in note 2 is $604,007, which would be paid to employees within the next five years.

d) Purchase

The Institute entered into contracts to purchase capital assets and consulting services. The maximum payment committed is $3,766,399, which will be paid in the next 12 months.

7. Allocated Expenses

a) Rent is apportioned based on allocated work spaces to each program. The amount allocated to each program is as follows:

	2020	2019
Research and education	$ 928,511	$ 963,989
Industry skills training	-	10,017
Technology adoption	107,601	82,112
Business acceleration	29,016	-
General and administration	122,109	53,698
Raise Program	21,762	-
	$ 1,208,999	$ 1,109,816

b) Loan forgiveness is allocated based on employees' cost centres. The amount allocated to each program is as follows:

	2020	2019
Research and education	$ 165,000	$ 20,000
General and administration	60,000	75,000
	$ 225,000	$ 95,000

8. Subsequent Event

On March 11, 2020, the World Health Organization declared the outbreak of the coronavirus (COVID-19) a pandemic, resulting in economic uncertainties affecting the Company's risks. Collection rates could be materially impacted by the economic slowdown resulting from COVID-19. The duration and impact of COVID-19 is unknown at this time and it is not possible to reliably estimate the impact that the length and severity of these developments may have on the financial results and condition of the Institute in future periods. The Institute is operating remotely during the pandemic. It has multi-year funding agreements in place with the Province of Ontario and Government of Canada through the Canada Institute for Advanced Research (CIFAR).

9. Comparative Figures

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.