

Vector Institute
Financial Statements
For the year ended March 31, 2022

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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, 2022 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, 2022, 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.

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

Oakville, Ontario
August 3, 2022

Vector Institute
Statement of Financial Position

March 31 **2022** 2021

Assets

Current

Cash	\$ 50,635,501	\$ 52,926,452
Accounts receivable	5,458,619	6,512,151
Current portion of employee loans (Note 2)	289,375	313,377
HST receivable	109,394	-
Prepaid expenses	2,897,941	558,440
	59,390,830	60,310,420

Employee loans (Note 2)	970,975	1,267,429
Capital assets (Note 3)	2,863,902	5,512,552

\$ 63,225,707 **\$ 67,090,401**

Liabilities and Net Assets

Current

Accounts payable and accrued liabilities	\$ 3,623,949	\$ 3,623,393
HST payable	-	81,101
	3,623,949	3,704,494


Deferred rent	209,429	593,086
Deferred contributions (Note 4)	5,069,837	15,752,017
Deferred capital contributions (Note 5)	2,692,021	4,996,907
	11,595,236	25,046,504

Net Assets

Unrestricted net assets	51,630,471	42,043,897
	\$ 63,225,707	\$ 67,090,401

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	2022	2021
Revenue		
Government grants		
Province of Ontario	\$ 11,289,494	\$ 10,295,672
Government of Canada		
PCAIS - Talent and Research (Note 7)	7,189,694	6,837,982
PCAIS - Commercialization (Note 7)	2,170,588	-
Industry partners	9,650,000	11,136,667
Amortization of deferred capital contributions	2,517,839	4,270,645
Investment income	384,156	425,068
Fees for service	400,577	142,871
Disposal of capital assets	-	642,315
	33,602,348	33,751,220
Expenses		
Research and education (Note 7)	8,442,600	7,517,472
Industry skills training (Note 7)	61,735	88,545
Technology adoption (Note 7)	4,746,437	3,468,506
Business acceleration (Note 7)	2,357,297	1,400,983
General and administration (Note 7)	3,463,680	2,822,737
RAISE AI	2,096,966	2,163,193
Employee loans accretion expense (recovery) (Note 2)	(14,543)	30,073
Amortization	2,861,602	3,316,848
	24,015,774	20,808,357
Excess of revenue over expenses for the year	\$ 9,586,574	\$ 12,942,863

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	2022			2021
	Invested in Capital Assets	Unrestricted	Total	Total
Net assets , beginning of year	\$ -	\$ 42,043,897	\$ 42,043,897	\$ 29,101,034
Excess of revenue over expenses for the year	-	9,586,574	9,586,574	12,942,863
Purchase of capital assets	212,953	(212,953)	-	-
Deferred funding for capital assets	(212,953)	212,953	-	-
Net assets , end of year	\$ -	\$ 51,630,471	\$ 51,630,471	\$ 42,043,897

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

Vector Institute Statement of Cash Flows

For the year ended March 31	2022	2021
Cash was provided by (used in)		
Operating activities		
Excess of revenue over expenses	\$ 9,586,574	\$ 12,942,863
Adjustments required to reconcile excess of revenue over expenses to net cash provided by operating activities		
Amortization of capital assets	2,861,602	3,316,848
Amortization of deferred capital contributions	(2,517,839)	(4,270,645)
Amortization of lease inducement	(343,763)	(343,763)
Gain (loss) on disposal of capital assets	-	(640,859)
Employee loans accretion and forgiveness	320,457	325,073
Changes in non-cash working capital balances		
Accounts receivable	1,053,532	(4,183,263)
HST rebate receivable/HST payable	(190,495)	129,782
Prepaid expenses	(2,339,501)	(275,429)
Accounts payable and accrued liabilities	556	27,092
Deferred contributions	(10,682,180)	(12,915,866)
Deferred rent - straight line lease	(39,894)	(4,693)
	(2,290,951)	(5,892,860)
Investing activities		
Purchase of capital assets	(212,953)	(3,957,387)
Cash advanced to employees	-	(200,000)
Proceeds on sale of capital assets	-	1,938,419
Redemption of short-term investments	-	28,000,614
	(212,953)	25,781,646
Financing activities		
Increase in deferred capital contributions	212,953	3,957,387
	212,953	3,957,387
(Decrease) increase in cash during the year	(2,290,951)	23,846,173
Cash, beginning of year	52,926,452	29,080,279
Cash, end of year	\$ 50,635,501	\$ 52,926,452

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

Vector Institute

Notes to Financial Statements

March 31, 2022

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 \$496,713 (2021 - \$464,656) for the Institute's portion of this plan.

Vector Institute Notes to Financial Statements

March 31, 2022

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, 2022 the straight line lease liability is \$37,547 (2021 - \$77,441) and the lease inducement is \$171,881 (2021 - \$515,644).

Vector Institute Notes to Financial Statements

March 31, 2022

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 \$335,000 (2021 - \$295,000) was recognized in general and administration, technology adoption and research and education expense groupings (Note 7). The loan forgiveness for the next five years and thereafter is as follows:

2023	\$	289,375
2024		246,002
2025		193,265
2026		175,043
Thereafter		220,011
	\$	1,123,696

3. Capital Assets

	2022		2021	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer servers and equipment	\$ 7,285,947	\$ 5,091,392	\$ 7,077,086	\$ 3,220,122
Workstations	541,196	366,082	412,847	285,845
Leasehold improvements	4,606,726	4,112,493	4,606,726	3,126,252
	\$ 12,433,869	\$ 9,569,967	\$ 12,096,659	\$ 6,632,219
Net book value		\$ 2,863,902		\$ 5,464,440

Vector Institute Notes to Financial Statements

March 31, 2022

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:

	2022	2021
Balance, beginning of year	\$ 15,752,017	\$ 28,667,883
Contributions received	8,164,470	8,175,175
Amounts recognized as revenue during the year		
Province of Ontario	(11,289,494)	(10,295,672)
Federal Government	(7,189,694)	(6,837,982)
Other	(154,509)	-
Amounts deferred for capital purposes (Note 5)	(212,953)	(3,957,387)
Balance, end of year	\$ 5,069,837	\$ 15,752,017

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:

	2022	2021
Balance, beginning of year	\$ 4,996,907	\$ 5,310,165
Contributions received for capital purposes	212,953	3,957,387
Less: current year amortization	(2,517,839)	(4,270,645)
Balance, end of year	\$ 2,692,021	\$ 4,996,907

6. Commitments

a) Office Premises

The Institute is committed to the following for the office premises:

2023		\$ 1,222,682
2024		1,835,426
2024		1,890,486
2024		1,947,201
2025		2,005,616
Thereafter		12,750,271
		\$ 21,651,682

The Institute is committed to \$4,260,000 of construction costs related to office premises.

Vector Institute Notes to Financial Statements

March 31, 2022

6. Commitments (continued)

b) 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 \$771,172 (2021 - \$814,273), which would be paid to employees within the next five years.

c) Purchase

The Institute is committed to purchasing \$2,263,197 of computing hardware and software.

7. Allocated Expenses

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

	<u>2022</u>	<u>2021</u>
Research and education	\$ 1,722,041	\$ 1,196,170
Technology adoption	200,237	139,104
Business acceleration	53,396	37,074
General and administration	226,936	157,641
Raise Program	40,048	27,883
	<u>\$ 2,242,658</u>	<u>\$ 1,557,872</u>

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

	<u>2022</u>	<u>2021</u>
Research and education	\$ 225,000	\$ 185,000
Technology adoption	50,000	50,000
General and administration	60,000	60,000
	<u>\$ 335,000</u>	<u>\$ 295,000</u>

Vector Institute Notes to Financial Statements

March 31, 2022

7. Allocated Expenses (continued)

c) On June 22, 2022, the Government of Canada announced the launch of a second phase of the Pan-Canadian Artificial Intelligence Strategy (PCAIS). As part of the strategy, effective April 19, 2021, the Vector Institute entered into a five-year agreement with Innovation, Science and Economic Development Canada for funding in the amount of \$20 million to translate research in artificial intelligence into commercial applications and growing the capacity of businesses to adopt these new technologies. This funding program broadens the reach of Vector's commercial-focused efforts to include an essential part of Canada's growth economy: small-and-medium-sized enterprises (SMEs).

During the period of April 19, 2021 to March 21, 2022 Vector recognized revenue of \$2.17 million under this agreement (i.e., PCAIS – Commercialization). \$2.49 million in additional in-kind contributions were raised by Vector.

Costs for the program are identified and reported to ISED under the categories of project engagement, specialized personnel and overhead. These costs are allocated as follows:

	<u>2022</u>	<u>2021</u>
Technology adoption	\$ 1,150,980	\$ -
Business acceleration	587,403	-
General and administration	348,589	-
R ^{AI} SE AI	<u>83,616</u>	<u>-</u>
Net assets transferred	<u>\$ 2,170,588</u>	<u>\$ -</u>

8. Financial Instrument Risks

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Institute is exposed to credit risk arising from its accounts receivable. Management believes the credit risk is minimized by the credit worthiness of its funders.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Institute is exposed to interest rate risk arising from the possibility that changes in interest rates will affect the value of fixed income denominated investments.

Vector Institute Notes to Financial Statements

March 31, 2022

9. COVID-19 Impact

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).