Vector Institute
Financial Statements
For the year ended March 31, 2018 and the period ended March 31, 2017

Contents

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Independent Auditor's Report

To the Directors of Vector Institute

We have audited the accompanying financial statements of Vector Institute, which comprise the statements of financial position as at March 31, 2018 and March 31, 2017 and the statements of operations, changes in net assets and cash flows for the year / period then ended and 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 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the 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 the auditor's 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, the auditor considers internal control relevant to the Organization'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 Organization'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 evidence we have obtained in our audits 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 Vector Institute as at March 31, 2018 and March 31, 2017 and the results of its operations and its cash flows for the year / period then ended in accordance with Canadian accounting standards for not-for-profit organizations.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Mississauga, Ontario
August 9, 2018

Vector Institute
Statements of Financial Position

March 31	2018	2017
(with comparatives for the 2 months ended March 31, 2017)		
Assets		
Current		
Cash	**$ 38,381,380**	$ 30,000,000
Accounts receivable	**2,770,302**	-
HST rebate receivable	**404,875**	-
Prepaid expenses	**70,081**	-
	41,626,638	30,000,000
Capital assets (Note 2)	**3,179,000**	-
	$ 44,805,638	$ 30,000,000
Liabilities and Net Assets		
Current		
Accounts payable and accrued liabilities	**$ 1,864,764**	$ -
Deferred contributions (Note 3)	**31,978,181**	30,000,000
Deferred capital contributions (Note 4)	**3,179,000**	-
	37,021,945	30,000,000
Net Assets		
Unrestricted net assets	**7,783,693**	-
	$ 44,805,638	$ 30,000,000

Commitments (Note 5)

On behalf of the Board:

____________________ Director

____________________ Director

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

Vector Institute
Statements of Operations

For the year ended March 31		2018		2017
(with comparatives for the 2 months ended March 31, 2017)				
Revenue				
Government grants				
Province of Ontario	**$**	**4,783,159**	$	-
Federal Government		**2,000,000**		-
Industry partners		**7,749,985**		-
Investment income		**33,709**		-
Amortization of deferred capital contributions		**357,851**		-
		14,924,704		-
Expenses				
Amortization		**357,851**		-
Research and education		**2,414,693**		-
Industry skills training		**53,467**		-
Technology adoption		**432,839**		-
Business acceleration		**1,500,000**		-
General and administration (Note 7)		**1,437,250**		-
		6,196,100		-
Excess of revenue over expenditures before one-time expenses		**8,728,604**		-
One-time expenses				
Transition costs (Note 6)		**944,911**		-
Excess of revenue over expenses for the year after one-time expenses	**$**	**7,783,693**	$	-

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

Vector Institute
Statements of Changes in Net Assets

For the year ended March 31 (with comparatives for the 2 months ended March 31, 2017)

	Invested in Capital Assets	**Unrestricted**	**2018 Total**	2017 Total
Net assets, beginning of year	**$ -**	**$ -**	**$ -**	$ -
Excess of revenue over expenses for the year	**-**	**7,783,693**	**7,783,693**	-
Purchase of capital assets	**3,536,851**	**(3,536,851)**	**-**	-
Deferred funding for capital assets	**(3,536,851)**	**3,536,851**	**-**	**-**
Net assets, end of year	**$ -**	**$ 7,783,693**	**$ 7,783,693**	$ -

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

Vector Institute
Statements of Cash Flows

For the year ended March 31	2018	2017
(with comparatives for the 2 months ended March 31, 2017)		
Cash was provided by (used in)		
Operating activities		
Excess of revenue over expenses	**$ 7,783,693**	$ -
Adjustments required to reconcile excess of revenue over expenses to net cash provided by operating activities		
Amortization of capital assets	**357,851**	-
Amortization of deferred capital contributions	**(357,851)**	-
Changes in non-cash working capital balances		
Accounts receivable	**(2,770,302)**	-
HST rebate receivable	**(404,875)**	-
Prepaid expenses	**(70,081)**	-
Accounts payable and accrued liabilities	**1,864,764**	-
Deferred contributions	**1,978,181**	30,000,000
	8,381,380	30,000,000
Investing activity		
Purchase of capital assets	**(3,536,851)**	-
Financing activity		
Increase in deferred capital contributions	**3,536,851**	-
Increase in cash during the year	**8,381,380**	30,000,000
Cash, beginning of year	**30,000,000**	-
Cash, end of year	**$ 38,381,380**	$ 30,000,000

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

1. Significant Accounting Policies

Nature and Purpose of Organization

The Vector Institute ("Vector") 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.

Vector 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

Vector 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 equipment	- straight line over 4 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.

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.

March 31, 2018 and March 31, 2017

1. Significant Accounting Policies (continued)

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.

Allocation of Expenses

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

2. Capital Assets

	2018		2017	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Computer equipment	**$ 166,621**	**$ 20,828**	$ -	$ -
Leasehold improvements	**3,370,230**	**337,023**	-	-
	$ 3,536,851	**$ 357,851**	$ -	$ -
Net book value		**$ 3,179,000**		$ -

3. 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:

	2018	2017
Balance, beginning of year	**$ 30,000,000**	$ -
Contributions received	**10,298,191**	30,000,000
Amounts recognized as revenue during the year	**(4,783,159)**	-
Amounts deferred for capital purposes (Note 4)	**(3,536,851)**	-
Balance, end of year	**$ 31,978,181**	$ 30,000,000

4. 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:

	2018	2017
Contributions received for capital purposes	**$ 3,536,851**	$ -
Less: accumulated amortization	**357,851**	-
	$ 3,179,000	$ -

5. Commitments

a) Office premises

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

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

2019	$ 704,010
2020	727,477
2021	750,944
2022	786,145
2023	410,672
	$ 3,379,248

b) University of Toronto

Vector is committed to providing up to $1,500,000 to the Governing Council of University of Toronto during the 2018-19 fiscal year upon successful submission of the project's progress report. Vector's partnership with the Creative Destruction Lab ("CDL") is intended to help facilitate and enhance operations of the CDL, which in 2017-18 allowed the program to scale the third annual "Machine Learning and the Market for Intelligence" conference, and to facilitate their commercialisation-for-scale program.

c) Forgivable Loans and Allowances

Vector has entered into contracts with employees and committed to various future payments related to forgivable loans and allowances. The maximum payment is expected to total $878,000, which would be paid to employees within the next five years.

6. Transition Costs

Transition costs represent costs of Vector while it was in its start-up phase. These costs encompass various remuneration for the transition team members, consultants, and general operating costs incurred for the creation of Vector, including legal fees and rent.

7. Allocated expenses

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

Research and education	$	528,373
Industry skills training		6,862
Technology adoption		31,008
Business acceleration		-
General and administration		53,914
	$	620,157