Vector Institute
Financial Statements
For the year ended March 31, 2019

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, 2019 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, 2019, 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

Mississauga, Ontario
July 29, 2019

Vector Institute
Statement of Financial Position

March 31	2019	2018
Assets		
Current		
Cash and cash equivalents	**$ 59,919,382**	$ 38,381,380
Accounts receivable	**3,545,872**	2,770,302
Current portion of employee loans (Note 2)	**194,443**	-
HST rebate receivable	**262,422**	404,875
Prepaid expenses	**53,240**	70,081
	63,975,359	41,626,638
Employee loans (Note 2)	**1,163,666**	-
Capital assets (Note 3)	**5,897,982**	3,179,000
	$ 71,037,007	$ 44,805,638
Liabilities and Net Assets		
Current		
Accounts payable and accrued liabilities	**$ 3,682,217**	$ 2,162,955
Deferred rent	**1,209,424**	-
Deferred contributions (Note 4)	**41,137,062**	31,679,990
Deferred capital contributions (Note 5)	**4,751,919**	3,179,000
	50,780,622	37,021,945
Net Assets		
Unrestricted net assets	**20,256,385**	7,783,693
	$ 71,037,007	$ 44,805,638

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	2019	2018
Revenue		
Government grants		
Province of Ontario	**$ 9,158,460**	$ 4,783,159
Federal Government	**5,817,138**	2,000,000
Industry partners	**12,520,983**	7,749,985
Amortization of deferred capital contributions	**1,390,606**	357,851
Investment income	**316,329**	33,709
Fees for service	**200,728**	-
Materials acceleration project	**125,838**	-
	29,530,082	14,924,704
Expenses		
Research and education (Note 8)	**5,936,770**	2,414,693
Industry skills training (Note 8)	**602,951**	53,467
Technology adoption (Note 8)	**2,324,866**	432,839
Business acceleration	**1,500,000**	1,500,000
General and administration (Note 8)	**3,671,656**	1,437,250
RAISE AI	**1,382,812**	-
Materials acceleration project	**125,838**	-
Employee loans accretion expense (Note 2)	**121,891**	-
Amortization	**1,390,606**	357,851
	17,057,390	6,196,100
Excess of revenue over expenditures before one-time expenses	**12,472,692**	8,728,604
One-time expenses		
Transition costs (Note 7)	**-**	944,911
Excess of revenue over expenses for the year	**$ 12,472,692**	$ 7,783,693

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			**2019**	2018
	Invested in Capital Assets	**Unrestricted**	**Total**	Total
Net assets, beginning of year	**$ -**	**$ 7,783,693**	**$ 7,783,693**	$ -
Excess of revenue over expenses for the year	**-**	**12,472,692**	**12,472,692**	7,783,693
Purchase of capital assets	**4,109,588**	**(4,109,588)**	**-**	-
Deferred funding for capital assets	**(4,109,588)**	**4,109,588**	**-**	-
Net assets, end of year	**$ -**	**$ 20,256,385**	**$ 20,256,385**	$ 7,783,693

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

Vector Institute
Statement of Cash Flows

For the year ended March 31	2019	2018
Cash was provided by (used in)		
Operating activities		
Excess of revenue over expenses	**$ 12,472,692**	$ 7,783,693
Adjustments required to reconcile excess of revenue over expenses to net cash provided by operating activities		
Amortization of capital assets	**1,390,606**	357,851
Amortization of deferred capital contributions	**(1,390,606)**	(357,851)
Employee loans accretion and forgiveness	**216,891**	-
Changes in non-cash working capital balances		
Accounts receivable	**(775,570)**	(2,770,302)
HST rebate receivable	**142,453**	(404,875)
Prepaid expenses	**16,841**	(70,081)
Accounts payable and accrued liabilities	**1,519,262**	1,864,764
Deferred contributions	**9,457,072**	1,978,181
Deferred rent - straight line lease	**63,361**	-
	23,113,002	8,381,380
Investing activities		
Purchase of capital assets	**(4,109,588)**	(3,536,851)
Cash advanced to employees	**(1,575,000)**	-
	(5,684,588)	(3,536,851)
Financing activities		
Increase in deferred capital contributions	**2,963,525**	3,536,851
Deferred rent - lease inducement	**1,146,063**	-
	4,109,588	3,536,851
Increase in cash during the year	**21,538,002**	8,381,380
Cash and cash equivalents, beginning of year	**38,381,380**	30,000,000
Cash and cash equivalents, end of year	**$ 59,919,382**	$ 38,381,380
Cash and cash equivalents consist of		
Cash	**$ 41,852,008**	$ 38,381,380
Guaranteed investment certificate (GIC)	**18,067,374**	-
	$ 59,919,382	$ 38,381,380

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 $61,954 (2018 - $Nil) 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.

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, 2019 the straight line lease liability is $63,361 (2018 - $nil) and the lease inducement is $1,146,063 (2018 - $nil).

March 31, 2019

1. Significant Accounting Policies (continued)

Cash Equivalents

Cash equivalents are comprised of an $18,000,000 (2018 - $nil) redeemable GIC bearing interest at 2.53%, maturing February 2020.

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 $95,000 was recognized in general and administration, and research and education expense groupings (Note 8). The minimum annual repayment schedule for the next five years is as follows:

2020	$ 194,443
2021	198,818
2022	203,291
2023	207,865
2024	132,542
Thereafter	421,150
	$ 1,358,109

3. Capital Assets

	2019		2018	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Computer servers and equipment	**$ 2,796,927**	**$ 479,016**	$ 166,621	$ 20,828
Workstations	**328,761**	**114,558**	-	-
Leasehold improvements	**4,520,751**	**1,154,884**	3,370,230	337,023
	$ 7,646,439	**$ 1,748,457**	$ 3,536,851	$ 357,851
Net book value		**$ 5,897,982**		$ 3,179,000

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:

	2019	2018
Balance, beginning of year	**$ 31,679,990**	$ 30,000,000
Contributions received	**21,579,057**	10,000,000
Amounts recognized as revenue during the year	**(9,158,460)**	(4,783,159)
Amounts deferred for capital purposes (Note 5)	**(2,963,525)**	(3,536,851)
Balance, end of year	**$ 41,137,062**	$ 31,679,990

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:

	2019	2018
Balance, beginning of year	**$ 3,179,000**	$ -
Contributions received for capital purposes	**2,963,525**	3,536,851
Less: current year amortization	**1,390,606**	357,851
Balance, end of year	**$ 4,751,919**	$ 3,179,000

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 four years are as follows:

2020	$ 727,477
2021	750,944
2022	786,145
2023	410,672
	$ 2,675,238

b) Pathfinder Projects

The Institute is committed to providing up to $400,000 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 $1,125,756, which would be paid to employees within the next five years.

7. Transition Costs

Transition costs represent costs of the Institute 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 the Institute, including legal fees and rent.

March 31, 2019

8. Allocated Expenses

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

	2019	2018
Research and education	**$ 963,989**	$ 528,373
Industry skills training	**10,017**	6,862
Technology adoption	**82,112**	31,008
General and administration	**53,698**	53,914
	$ 1,109,816	$ 620,157

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

	2019	2018
Research and education	**$ 20,000**	$ -
General and administration	**75,000**	-
	$ 95,000	$ -

9. Comparative Figures

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