Vector Institute
Financial Statements
For the year ended March 31, 2024

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, 2024 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, 2024, 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
July 26, 2024

Vector Institute
Statement of Financial Position

March 31	2024	2023
Assets		
Current		
Cash	**$ 20,969,584**	$ 7,508,656
Short-term investments (Note 1)	**30,706,438**	40,756,296
Accounts receivable	**2,119,560**	4,553,106
Current portion of employee loans (Note 2)	**184,308**	275,778
HST receivable	**70,780**	64,244
Prepaid expenses	**714,566**	2,552,640
	54,765,236	55,710,720
Employee loans (Note 2)	**690,213**	834,217
Capital assets (Note 3)	**9,424,144**	3,502,395
	$ 64,879,593	$ 60,047,332
Liabilities and Net Assets		
Current		
Accounts payable and accrued liabilities	**$ 4,112,013**	$ 4,267,524
Deferred rent	**135,665**	-
Deferred contributions (Note 4)	**3,256,722**	1,602,409
Deferred capital contributions (Note 5)	**3,070,526**	1,239,416
	10,574,926	7,109,349
Net Assets		
Unrestricted net assets	**54,304,667**	52,937,983
	$ 64,879,593	$ 60,047,332

Commitments (Note 6)

On behalf of the Board:

M Woon ____________ Director

____________ Director

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

Vector Institute
Statement of Operations

For the year ended March 31	2024	2023
Revenue		
Government grants		
Province of Ontario	**$ 6,546,912**	$ 4,624,256
Government of Canada		
PCAIS - Talent and Research (Note 7)	**9,365,823**	8,393,843
PCAIS - Commercialization (Note 7)	**5,000,000**	3,829,412
Industry partners	**9,916,667**	9,533,333
Amortization of deferred capital contributions	**1,121,978**	1,452,605
Investment income	**2,554,580**	1,735,750
Other revenue	**825,764**	286,572
	35,331,724	29,855,771
Expenses		
Research and education (Note 7)	**9,976,340**	9,287,515
Industry skills training	**451,958**	183,758
Technology adoption (Note 7)	**6,549,717**	6,136,011
Business acceleration (Note 7)	**7,004,143**	3,468,126
General and administration (Note 7)	**5,713,509**	4,886,527
R[AI]SE AI	**2,233,630**	2,493,273
Employee loans accretion expense (Note 2)	**20,474**	130,355
Amortization	**2,015,269**	1,962,694
	33,965,040	28,548,259
Excess of revenue over expenses for the year	**$ 1,366,684**	$ 1,307,512

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	2024	2023
Net assets, beginning of year	**$ 52,937,983**	$ 51,630,471
Excess of revenue over expenses for the year	**1,366,684**	1,307,512
Net assets, end of year	**$ 54,304,667**	$ 52,937,983

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

Vector Institute
Statement of Cash Flows

For the year ended March 31	2024	2023
Cash was provided by (used in)		
Operating activities		
Excess of revenue over expenses	**$ 1,366,684**	$ 1,307,512
Adjustments required to reconcile excess of revenue over expenses to net cash provided by operating activities		
Amortization of capital assets	**2,015,269**	1,962,694
Amortization of deferred capital contributions	**(1,121,978)**	(1,452,605)
Addition to (amortization of) deferred rent	**135,665**	(209,429)
Employee loans accretion and forgiveness	**335,474**	450,355
Changes in non-cash working capital balances		
Accounts receivable	**2,433,546**	905,513
HST rebate receivable	**(6,536)**	45,150
Prepaid expenses	**1,838,074**	345,301
Accounts payable and accrued liabilities	**(155,511)**	880,173
Deferred contributions	**1,654,313**	(3,704,026)
	8,495,000	530,638
Investing activities		
Purchase of capital assets	**(7,937,018)**	(2,601,187)
Cash advanced to employees	**(100,000)**	(300,000)
Proceeds from (purchase of) short-term investments	**10,049,858**	(40,756,296)
	2,012,840	(43,657,483)
Financing activities		
Increase in deferred capital contributions	**2,953,088**	-
Increase (decrease) in cash during the year	**13,460,928**	(43,126,845)
Cash, beginning of year	**7,508,656**	50,635,501
Cash, end of year	**$ 20,969,584**	$ 7,508,656

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 $961,904 (2023 - $794,979) 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.

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.

At March 31, 2024 the straight line lease liability is $135,665 (2023 - $Nil).

Short Term Investments

Short term investments are comprised of a non-redeemable GIC in the total amount of $30,000,000 (2023 - $40,000,000) bearing interest at 5.73% (2023 - $3.98% and 5.24%) maturing April 30, 2024.

2. Employee Loans

The loans are unsecured, non interest bearing with maturity dates ranging from September 2024 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 $315,000 (2023 - $320,000) 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:

2025	$ 184,308
2026	234,771
2027	209,644
2028	174,609
2029	71,189
	$ 874,521

3. Capital Assets

	2024		2023	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Computer servers and equipment	**$ 10,488,147**	**$ 8,106,197**	$ 9,844,524	$ 6,517,685
Workstations	**1,277,199**	**560,005**	583,806	408,248
Leasehold improvements	**6,600,000**	**275,000**	4,606,726	4,606,728
	$ 18,365,346	**$ 8,941,202**	$ 15,035,056	$ 11,532,661
Net book value		**$ 9,424,144**		$ 3,502,395

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:

	2024	2023
Balance, beginning of year	**$ 1,602,409**	$ 5,380,006
Contributions received	**20,623,077**	9,468,843
Amounts recognized as revenue during the year		
Province of Ontario	**(6,546,912)**	(4,624,256)
Federal Government	**(9,365,823)**	(8,393,843)
Other	**(102,941)**	(228,341)
Amounts deferred for capital purposes (Note 5)	**(2,953,088)**	-
Balance, end of year	**$ 3,256,722**	$ 1,602,409

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:

	2024	2023
Balance, beginning of year	**$ 1,239,416**	$ 2,692,021
Contributions received for capital purposes	**2,953,088**	-
Less: current year amortization	**(1,121,978)**	(1,452,605)
Balance, end of year	**$ 3,070,526**	$ 1,239,416

6. Commitments

a) Office Premises

The Organization has an operating lease for its premises expiring in September 2033.

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

2025	$ 1,865,732
2026	1,921,796
2027	1,979,469
2028	2,038,749
2029	2,099,868
Thereafter	10,247,512
	$ 20,153,126

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 $Nil (2023 - $436,487), which would be paid to employees within the next five years.

c) Grants

The Institute is committed to provide matching contributions to the Digital Research Alliance of Canada's *Pan-Canadian AI Compute Environment* project, which is enabled through the federal Dedicated Computing Capacity for Artificial Intelligence Contribution Program and administered by the Digital Research Alliance of Canada. The overall purpose of the project will advance AI research and commercialization in Canada through the establishment of national AI infrastructure. Vector's contribution is key to building the Ontario region AI infrastructure, which combined with that of Amii in Edmonton, Alberta and Mila in Montreal, Quebec will comprise a national AI compute environment. Specific funding obligations, which were last estimated at $5,200,000 for the Vector Insitute for 2024-25, are planned with representatives from the leadership of each participating institute. The actual budget activities are provided for under a funding agreement with the Digital Research Alliance of Canada, Vector Institute, and the Governing Council of the University of Toronto, and actual expense obligations are based on a 60-40 cost matching requirement in respect of eligible costs under the program, which is required by section 4 d) iv) i. the federal agreement, which is applied to the actual eligible expenses made under the Agreement.

7. Allocated Expenses

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

	2024	2023
Research and education	**$ 1,083,763**	$ 1,276,273
Technology adoption	**291,346**	468,437
Business acceleration	**245,524**	212,582
General and administration	**179,588**	200,759
R[AI]SE AI	**37,932**	107,071
	$ 1,838,153	$ 2,265,122

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

	2024	2023
Research and education	**$ 265,000**	$ 225,000
Technology adoption	**50,000**	50,000
General and administration	**-**	45,000
	$ 315,000	$ 320,000

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 year Vector recognized revenue of $5,000,000 (2023 - $3,829,412) under this agreement (i.e., PCAIS – Commercialization). $7,181,818 (2023 - $3,110,010) 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:

	2024	2023
Technology adoption	**$ 1,087,017**	$ 2,052,313
Business acceleration	**3,898,157**	1,148,657
General and administration	**-**	574,000
$\text{R}^{\text{AI}}\text{SE}$ AI	**-**	54,442
Research operations	**14,826**	-
Net assets transferred	**$ 5,000,000**	$ 3,829,412

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 and HST receivable. Management believes the credit risk is minimized by the credit worthiness of its funders.

8. Financial Instrument Risks (continued)

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.

9. Comparative Figures

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