

Vector Institute
Financial Statements
For the year ended March 31, 2026

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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, 2026 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, 2026, 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 30, 2026

Vector Institute
Statement of Financial Position

March 31

2026

2025

Assets

Current

Cash	\$ 46,042,028	\$ 21,592,893
Short-term investments (Note 3)	-	25,060,411
Accounts receivable	4,711,712	2,185,704
Current portion of employee loans (Note 2)	41,882	191,789
HST receivable	164,797	85,222
Prepaid expenses	1,427,960	815,167
	<u>52,388,379</u>	<u>49,931,186</u>

Employee loans (Note 2)

446,821 **374,746**

Capital assets (Note 4)

8,069,336 **8,298,377**

\$ 60,904,536 **\$ 58,604,309**

Liabilities and Net Assets

Current

Accounts payable and accrued liabilities **\$ 5,860,415** **\$ 6,139,932**

Deferred rent

552,557 **390,224**

Deferred contributions (Note 5)

1,514,729 **815,837**

Deferred capital contributions (Note 6)

2,748,651 **2,821,881**

10,676,352 **10,167,874**

Net Assets

Unrestricted net assets

50,228,184 **48,436,435**

\$ 60,904,536 **\$ 58,604,309**

Commitments (Note 7)

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	2026	2025
Revenue		
Government grants		
Province of Ontario	\$ 8,538,466	\$ 8,091,639
Government of Canada		
PCAIS - Talent and Research (Note 8)	9,717,603	9,145,788
PCAIS - Commercialization (Note 8)	7,077,062	5,000,000
Canadian AI Safety Institute	1,038,520	-
FedDev - HealthSpark	1,504,880	-
Industry partners	8,966,667	9,083,334
Amortization of deferred capital contributions	532,444	657,006
Investment income	1,307,492	2,228,591
Other revenue	3,709,559	2,580,623
Employee loan recovery (Note 2)	32,168	82,014
	42,424,861	36,868,995
Expenses		
Research operations and academic partnerships (Note 8)	13,815,560	12,641,616
Technology adoption - Industry innovation (Note 8)	6,208,906	5,315,060
Technology adoption - Health (Note 8)	1,807,511	1,686,495
Business acceleration - AI engineering (Note 8)	5,842,191	5,598,810
Business acceleration - Technology (Note 8)	3,104,994	2,942,821
Thought leadership	3,187,300	2,889,393
General and administration (Note 8)	3,206,078	4,304,473
Amortization	1,933,846	1,940,932
PAICE	1,526,726	5,417,627
	40,633,112	42,737,227
Excess (deficiency) of revenue over expenses for the year	\$ 1,791,749	\$ (5,868,232)

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	2026	2025
Net assets , beginning of year	\$ 48,436,435	\$ 54,304,667
Excess (deficiency) of revenue over expenses for the year	1,791,749	(5,868,232)
Net assets , end of year	\$ 50,228,184	\$ 48,436,435

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

Vector Institute Statement of Cash Flows

For the year ended March 31	2026	2025
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Cash was provided by (used in)

Operating activities

Excess (deficiency) of revenue over expenses	\$ 1,791,749	\$ (5,868,232)
Adjustments required to reconcile excess (deficiency) of revenue over expenses to net cash provided by operating activities		
Amortization of capital assets	1,933,846	1,940,932
Amortization of deferred capital contributions	(532,444)	(657,006)
Addition to deferred rent	162,333	254,559
Employee loans accretion and forgiveness	187,832	557,986
Changes in non-cash working capital balances		
Accounts receivable	(2,526,008)	(66,144)
HST rebate receivable	(79,575)	(14,442)
Prepaid expenses	(612,793)	(100,601)
Accounts payable and accrued liabilities	(279,517)	2,027,919
Deferred contributions	698,892	(2,440,885)
	744,315	(4,365,914)

Investing activities

Purchase of capital assets	(1,704,805)	(815,165)
Cash advanced to employees	(110,000)	(250,000)
Proceeds from short-term investments	25,060,411	5,646,027
	23,245,606	4,580,862

Financing activities

Increase in deferred capital contributions	459,214	408,361
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Increase in cash during the year	24,449,135	623,309
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Cash, beginning of year	21,592,893	20,969,584
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Cash, end of year	\$ 46,042,028	\$ 21,592,893
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The accompanying notes are an integral part of these financial statements.

Vector Institute Notes to Financial Statements

March 31, 2026

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.

Vector Institute Notes to Financial Statements

March 31, 2026

1. Significant Accounting Policies (continued)

Pension Plan

The Institute maintains a defined contribution pension plan for their employees. Included in operating expenditures is \$1,183,910 (2025 - \$1,136,453) for the Institute's portion of this plan.

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, 2026 the straight line lease liability is \$552,557 (2025 - \$390,224).

Vector Institute Notes to Financial Statements

March 31, 2026

2. Employee Loans

The loans are unsecured, non interest bearing with maturity dates ranging from September 2024 to September 2029. 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 \$220,000 (2025 - \$640,000) was recognized in Technology Adoption - Industry and Research Operations and Academic Partnerships (Note 8). The loan forgiveness for the next five years and thereafter is as follows:

2027	\$ 41,882
2028	186,756
2029	152,630
2030	72,533
2031	34,902
	<u>\$ 488,703</u>

3. Short-term Investments

Short-term investments are comprised of a non-redeemable GIC in the total amount of \$nil (2025 - \$25,060,411) bearing interest at nil% (2025 - 3.15%).

4. Capital Assets

	2026		2025	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer servers and equipment	\$ 12,636,904	\$ 10,080,931	\$ 11,074,681	\$ 9,130,141
Workstations	1,647,423	1,139,865	1,504,841	816,809
Leasehold improvements	6,600,000	1,594,195	6,600,000	934,195
	<u>\$ 20,884,327</u>	<u>\$ 12,814,991</u>	<u>\$ 19,179,522</u>	<u>\$ 10,881,145</u>
Net book value		<u>\$ 8,069,336</u>		<u>\$ 8,298,377</u>

Vector Institute Notes to Financial Statements

March 31, 2026

5. 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:

	<u>2026</u>	<u>2025</u>
Balance, beginning of year	\$ 815,837	\$ 3,256,722
Contributions received	20,125,705	15,572,156
Amounts recognized as revenue during the year		
Province of Ontario	(8,538,466)	(8,091,639)
Government of Canada	(10,677,681)	(9,145,788)
Other	147,103	(367,253)
Amounts deferred for capital purposes (Note 6)	(357,769)	(408,361)
Balance, end of year	<u>\$ 1,514,729</u>	<u>\$ 815,837</u>

6. 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:

	<u>2026</u>	<u>2025</u>
Balance, beginning of year	\$ 2,821,881	\$ 3,070,526
Contributions received for capital purposes	459,214	408,361
Less: current year amortization	(532,444)	(657,006)
Balance, end of year	<u>\$ 2,748,651</u>	<u>\$ 2,821,881</u>

Vector Institute Notes to Financial Statements

March 31, 2026

7. 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:

2027	\$ 2,828,199
2028	2,891,106
2029	2,955,904
2030	3,022,595
2031	3,091,414
Thereafter	4,761,515
	<u>\$ 19,550,733</u>

b) 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 \$1,044,878 for the Vector Institute for 2026-27, 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.

The Short-Term AI Compute Capacity for Research & Industry (STACC) program is supported by a Contribution Agreement with Innovation Science and Economic Development Canada (ISED), and the STACC program is part of the national AI compute plan that was originally announced in the federal *Budget 2024*. The stated purpose of the STACC program is to purchase AI compute equipment to address both research and industry computing needs, with the majority of the funds dedicated to establishing new computing clusters in the national AI institutes. Vector receives funds from ISED and will contribute \$1,500,152 to the Université Laval from 2026-27 to 2028-29 to implement this project.

Vector Institute Notes to Financial Statements

March 31, 2026

8. Allocated Expenses

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

	<u>2026</u>	<u>2025</u>
Research Operations and Academic Partnerships (ROAP)	\$ 2,303,594	\$ 2,016,248
Technology adoption - Industry	240,073	324,348
Technology adoption - Health	53,895	65,898
Business acceleration - AI engineering	150,049	214,237
Business acceleration - Technology	57,839	74,291
Thought leadership	65,698	86,810
General and administration	<u>83,377</u>	<u>115,837</u>
	<u>\$ 2,954,525</u>	<u>\$ 2,897,669</u>

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

	<u>2026</u>	<u>2025</u>
Research Operations and Academic Partnerships (ROAP)	\$ 170,000	\$ 590,000
Technology adoption - Industry	<u>50,000</u>	<u>50,000</u>
	<u>\$ 220,000</u>	<u>\$ 640,000</u>

Vector Institute Notes to Financial Statements

March 31, 2026

8. 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 \$7,077,062 (2025 - \$5,000,000) under this agreement (i.e., PCAIS – Commercialization). \$10,617,065 (2025 - \$5,737,679) 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:

	2026	2025
Technology adoption - Industry	\$ 2,096,954	\$ 271,806
Technology adoption - Health	4,182	-
Business acceleration - AI engineering	3,872,205	4,702,964
Business acceleration - Technology	11,676	25,230
Research Operations and Academic Partnerships (ROAP)	145,265	-
General and Administrative	946,780	-
Net assets transferred	\$ 7,077,062	\$ 5,000,000

9. 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.

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.