

10793574 Canada Association

(operating as Canada's Digital Technology Supercluster)

Financial Statements

March 31, 2020

(expressed in Canadian dollars)



Independent auditor's report

To the Members of 10793574 Canada Association operating as Canada's Digital Technology Supercluster

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Canada's Digital Technology Supercluster (the Entity) as at March 31, 2020 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

What we have audited

The Entity's financial statements comprise:

- the statement of financial position as at March 31, 2020;
 - the statement of operations and changes in net assets for the year then ended;
 - the statement of cash flows for the year then ended; and
 - the notes to the financial statements, which include a summary of significant accounting policies.
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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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the 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.

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In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity'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.

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 Entity'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 Entity'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 Entity 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.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
June 25, 2020

10793574 Canada Association
 (operating as Canada's Digital Technology Supercluster)
 Statement of Financial Position
 As at March 31, 2020

(expressed in Canadian dollars)

	2020 \$	2019 \$
Assets		
Current assets		
Cash and cash equivalents (note 4)	9,212,633	3,480,572
Accounts and other receivables (note 5)	28,203,785	241,013
Prepaid expenses	98,249	36,089
	<u>37,514,667</u>	<u>3,757,674</u>
Capital assets	<u>113,540</u>	<u>43,315</u>
Total assets	<u>37,628,207</u>	<u>3,800,989</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	2,009,950	517,666
Deferred contributions (note 6)	31,905,387	1,381,927
	<u>33,915,337</u>	<u>1,899,593</u>
Deferred contributions		
Deferred contributions for future project expenses (note 6)	3,381,500	1,790,000
Deferred capital contributions – capital assets (note 6)	331,370	111,396
	<u>3,712,870</u>	<u>1,901,396</u>
Total liabilities and net assets	<u>37,628,207</u>	<u>3,800,989</u>
Subsequent events (note 9)		

Approved by the Board of Directors

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Director



Director

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

10793574 Canada Association

(operating as Canada's Digital Technology Supercluster)

Statement of Operations and Changes in Net Assets

For the year ended March 31, 2020

(expressed in Canadian dollars)

	2020 \$	2019 \$
Revenues		
ISED funding (note 6)	7,530,451	1,012,855
Program management fees (note 6)	2,324,880	1,817,342
Member direct investment (note 6)	1,743,320	250,000
Other revenue (note 7)	173,913	191,996
	<hr/> 11,772,564	<hr/> 3,272,193
Expenses		
Technology program expenses	5,376,259	669,462
Capacity pilot program expenses	1,594,332	52,682
COVID-19 program expenses	600,000	-
Corporate programs and management	4,201,973	2,550,049
	<hr/> 11,772,564	<hr/> 3,272,193
Changes in net assets represented by excess of revenues over expenses	<hr/> -	<hr/> -

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

10793574 Canada Association

(operating as Canada's Digital Technology Supercluster)

Statement of Cash Flows

For the year ended March 31, 2020

(expressed in Canadian dollars)

	2020 \$	2019 \$
Cash provided by (used in)		
Operating activities		
Excess of revenues over expenses	-	-
Items not involving cash		
Release of deferred contributions related to future expenses (note 6)	(11,577,187)	(3,077,218)
Amortization of deferred contributions related to capital assets (note 6)	(21,463)	(2,979)
	<u>(11,598,650)</u>	<u>(3,080,197)</u>
Funding received and receivable		
ISED funding (note 6)	35,536,174	1,437,761
Member program management fees	4,297,411	2,245,000
Member direct investment	4,100,000	2,540,000
	<u>43,933,585</u>	<u>6,222,761</u>
Change in operating assets and liabilities		
Accounts and other receivables (note 5)	(27,962,772)	(10,056)
Prepaid expenses	(62,159)	(36,089)
Accounts payable and accrued liabilities	1,492,283	427,469
	<u>(26,532,648)</u>	<u>381,324</u>
Investing activities		
Acquisition of capital assets	<u>(70,226)</u>	<u>(43,316)</u>
Increase in cash and cash equivalents	5,732,061	3,480,572
Cash and cash equivalents – Beginning of year	<u>3,480,572</u>	-
Cash and cash equivalents – End of year	<u>9,212,633</u>	<u>3,480,572</u>

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

10793574 Canada Association

(operating as Canada's Digital Technology Supercluster)
Notes to Financial Statements
March 31, 2020

(expressed in Canadian dollars)

1 Operations

10793574 Canada Association, operating as Canada's Digital Technology Supercluster (the Digital Supercluster or the Organization) collaborates with member organizations to facilitate and co-invest in projects that develop digital products and platforms to transform industries and propel the economic growth of Canada. The key objectives of the Organization are:

- a) To engage Canadian companies from across the spectrum of industries and types from start-ups, small and medium enterprises, large companies, multinationals, large industry adopters, post-secondary institutions, and research institutions to address digital challenges by collaborating to create products and platforms that will position Canada as a global leader in digital enterprises and data-driven economies.
- b) To create a critical mass of world-leading digital technology companies that develop innovative products, platforms, and processes.
- c) To transform Canada's industries through the digitization of business, prioritizing industry-specific needs, and delivering productivity gains and competitive advantages at the firm and industry levels.
- d) To grow the economic benefits for the region and for Canada by generating new companies, scaling existing firms, enabling performance improvements in Canada's sectors of strength, and positioning Vancouver as a global hub for digital technology innovation.

ISED Contribution Agreement

With the signing of the Contribution Agreement on November 2018, the Ministry of Innovation Science and Economic Development (ISED) committed to fund the Digital Supercluster for eligible program costs over a five-year period commencing in fiscal year 2018/2019. Under the terms of the agreement, ISED provides a non-repayable contribution to the Digital Supercluster for eligible internal program costs and eligible project costs. The total approved funding was set at \$152,843,759 over the five-year period. The annual amounts may be reallocated to other fiscal years within the five-year period with the written approval from the Minister of ISED.

Digital Supercluster membership

The Digital Supercluster has engaged with a range of industry market participants who are members of the Digital Supercluster and are collaborators in innovative projects. The Digital Supercluster co-invests in member led projects which are selected through a competitive process. Members of the Digital Supercluster pay annual fees for corporate programs and management, capacity building, and technology leadership programs. Membership fees were assessed annually as a percentage of planned investment commitment over five years, amortized per year. At the end of the fiscal period ending March 31, 2020, the Board of Directors approved a new membership fee structure, effective April 1, 2020 which allows members to pay a smaller up front annual membership fee plus a percent of project costs when funding is provided from the Organization. See subsequent events (note 9). Fees by members are considered restricted contributions and are recognized as costs are incurred.

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(expressed in Canadian dollars)

Digital Supercluster program streams

The Digital Supercluster invests in program areas namely Technology Leadership, Capacity Building and the recently created program, COVID-19. The Technology Leadership Program has three streams: Digital Twins, Data Commons and Precision Health. Investments in Technology Leadership will be complemented by direct investments in talent development, re-skilling and scaling small and medium-size enterprises (SME) through our Capacity Building Program. To reduce risk for early stage projects, the Organization also invests in Feasibility Studies. To rapidly respond to the challenges presented in the current COVID-19 environment, a new program was created to fund projects to deliver solutions to some of the biggest issues created or exacerbated by COVID-19 focused on unlocking solutions to protect the health and safety of Canadians and our economy through the development, deployment, and scaling of digital technologies.

2 Basis of presentation

These financial statements have been prepared in accordance with Canadian Accounting Standards for Not-For-Profit Organizations (ASNPO) in Part III of the Chartered Professional Accountants of Canada (CPA Canada) Handbook. The financial statements are prepared on a going concern basis.

3 Significant accounting policies

Deferred contributions and revenue recognition

The Organization follows the deferral method of accounting for contributions.

a) Restricted contributions

Funding from ISED, program management fee and member direct investments are considered restricted for the purpose of providing funding to eligible recipients for future technology leadership programs, capacity building programs, and the payment of the Digital Supercluster operating and capital expenditures. Restricted contributions for expenses of a future period are recorded as deferred contributions and recognized as revenue in the year in which the related expenses are incurred. Investment income earned on deferred contributions is recognized in the period in which it is earned. Deferred contributions related to capital assets represent amounts received specifically for the purpose of purchasing capital assets. Restricted contributions related to the purchase of capital assets are deferred and recorded as revenue over the same period the related asset is amortized.

b) Other and in-kind contributions

In-kind contributions represent donated services and are recorded in the period they are received at fair market value with a corresponding in-kind expense for the same amount. Other contributions also follow the deferral method of revenue recognition if it is considered restricted.

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Use of estimates

The preparation of financial statements in accordance with ASNPO requires management to make certain estimates and assumptions that may affect the reported amounts of certain assets and liabilities and the disclosure of contingent 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 those estimates.

Cash and cash equivalents

Cash and cash equivalents consist of cash balances and call deposits that have original maturities of three months or less.

Capital assets

Capital assets are recorded at cost less accumulated depreciation. Capital assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Computer equipment	3 years
Furniture and fixture	4 years

Financial instruments

At period end, the Organization assesses whether there are any indications that a financial asset measured at cost or amortized cost may be impaired. Financial assets measured at cost include funding receivable and other receivables. If there is an indicator of impairment, the Organization determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Organization expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial impairment charge.

Reclassifications

Certain prior year comparative numbers have been reclassified to conform with the current year's presentation. The reclassification did not change any totals or component subtotals from the prior year financial statements. The reclassification was done mainly to split out member direct investment fees in order to better present the nature of such contributions in the presentation and note disclosure.

4 Cash and cash equivalents

Cash and cash equivalents represent bank and other short-term deposits held at financial institutions. It includes a \$4.64 million (2019 – \$2.29 million) member advance restricted for the funding of projects. This amount is included as a deferred contribution and will be used to fund future projects (see note 6).

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5 Accounts and other receivables

Accounts and other receivables include several types of receivables. The Funding Receivable relates to funding confirmed to be receivable by ISED but not yet received and used to fund approved and planned projects under the Organization's Technology Leadership Program, Corporate Programs and Management, and the newly created COVID-19 program. The Member Fee Receivable represents the amounts receivable by members for annual fees.

As part of certain changes made by the Organization and its stakeholders in response to the COVID-19 pandemic, (which included the funding, membership and project cost changes discussed in note 9), the Organization also agreed to forgive certain 2019/2020 membership fees, which have not yet been recognized as revenue in the statement of operations. The member fee receivables balance was adjusted with such amount as at March 31, 2020.

	2020	2019
	\$	\$
Member fee receivables	315,000	220,000
Funding receivables	27,885,787	-
Other receivables	2,998	21,013
Accounts and other receivables	<u>28,203,785</u>	<u>241,013</u>

6 Funding and deferred contributions

Deferred contributions represent unspent contributions restricted for specific purposes and projects, and include expenses for operating as well as capital purposes.

a) Deferred contributions – current

Deferred contributions – current, represent unspent member program management fees, ISED funding for program costs, and a contribution from the Province of BC for internal program costs and capacity building. The amounts are recognized as revenue in the period the related expense is incurred, which is expected to be within one year. Among the eligible \$36.72 million funding allocated to the period ending March 31, 2020, \$8.84 million was received by period end March 31, 2020, and the residual \$27.89 million was received in April 2020.

	2020	2019
	\$	\$
Balance – Beginning of year	1,381,927	140,760
Eligible funding for the financial year	36,724,451	2,073,385
Member program management fees	4,297,411	2,245,000
	<u>42,403,789</u>	<u>4,459,145</u>
Amounts recognized as revenue during the year	(10,498,402)	(3,077,218)
Balance – End of year	<u>31,905,387</u>	<u>1,381,927</u>

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b) Deferred contributions related to capital assets

	2020	2019
	\$	\$
Balance – Beginning of year	111,396	-
Eligible funding for the financial year	241,437	114,375
Amortization of capital assets recognized as revenue	(21,463)	(2,979)
	<hr/>	<hr/>
Balance – End of year	331,370	111,396

c) Deferred contributions for future project expenses

	2020	2019
	\$	\$
Balance – Beginning of year	1,790,000	-
Eligible funding for the financial year	3,100,000	1,790,000
Presented as current deferred contribution	(429,714)	-
Amounts recognized to revenue	(1,078,786)	-
	<hr/>	<hr/>
Balance – End of year	3,381,500	1,790,000

7 Other revenue

	2020	2019
	\$	\$
In-kind contribution for office facility	156,053	146,722
Interest revenue (received in cash)	16,785	18,995
Other	1,075	26,279
	<hr/>	<hr/>
	173,913	191,996

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8 Project commitments

The Organization invests in projects in programs as outlined in note 1. Projects are selected through a competitive process and successful proponents enter into Master Project Agreements outlining the terms of the investment. As of March 31, 2020, commitments for funding by programs are as follows:

	Total committed co- investment \$	Estimated remaining commitment \$
Approved programs		
Technology leadership programs	21,982,726	18,881,231
Capacity pilot program	2,756,865	1,356,640
Covid-19 program	750,000	150,000
	<hr/>	<hr/>
	25,489,591	20,387,871

9 Subsequent events

After year end, the COVID-19 pandemic continued and became more severe. The current circumstances are dynamic and the impacts of COVID-19 on the local, Canadian and Global economy is significant. As part of the Digital Supercluster’s and its relevant stakeholders’ response plan, the following key changes have been introduced and agreed upon for the 2020/2021 fiscal year:

In response to the COVID-19 pandemic, ISED adjusted its funding rules to enable the Digital Supercluster to rapidly respond to the current crisis.

As a result, the Digital Supercluster Board of Directors approved \$60 Million to be allocated to a new COVID-19 program. The program is designed to fund projects that deliver solutions to some of the biggest issues created or exacerbated by COVID-19, focussing on unlocking solutions to protect the health and safety of Canadians and our economy through the development, deployment, and scaling of digital technologies.

For the 2020-2021 fiscal year, the COVID-19 program allows the Digital Supercluster to fund greater than 50% of the project costs as well as have 100% of the Digital Supercluster’s operations and administration costs funded by ISED. As a result of these measures, and to support members under the new economic challenges posed by the pandemic, the Digital Supercluster has decided it would not collect project fees from April 2020 to March 2021.

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