Grant Thornton

Financial Statements

Innovation Factory

March 31, 2013

Contents

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Independent Auditor's Report

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To the Board of Directors of
Innovation Factory

We have audited the accompanying financial statements of Innovation Factory, which comprise the statement of financial position as at March 31, 2013, and the statements of operations and changes in net assets and cash flows for the year 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 audit. We conducted our audit 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 audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report (continued)

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Innovation Factory as at March 31, 2013, 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.

Comparative Information
Without modifying our opinion, we draw attention to Note 4 to the financial statements which describes that Innovation Factory adopted Canadian accounting standards for not-for-profit organizations on April 1, 2012 with a transition date of April 1, 2011. These standards were applied retrospectively by management to the comparative information in these financial statements, including the balance sheets as at March 31, 2012 and April 1, 2011, and the statements of operations and changes in net assets and cash flows for the year ended March 31, 2012 and related disclosures. We were not engaged to report on the restated comparative information, and as such, it is unaudited.

Grant Thornton LLP

Hamilton, Canada
December 5, 2013

Chartered Accountants
Licensed Public Accountants

Innovation Factory
Statements of Operations and Changes in Net Assets

Year ended March 31	**2013**	2012 (unaudited, Notes 3-4)
Revenue		
Government grants	**$ 898,707**	$ 778,299
Sponsorships	**219,523**	112,555
Sponsorships in-kind	**4,697**	17,809
	1,122,927	908,663
Expenses		
Salaries and employee benefits	**687,180**	654,073
Program expenses	**111,121**	60,883
Marketing and outreach	**108,424**	104,025
Facility	**53,284**	24,374
Professional fees	**50,555**	17,840
Operating expenses	**37,196**	39,999
Amortization	**14,469**	7,744
In-kind expenses	**4,697**	17,809
	1,066,926	926,747
Excess (deficiency) of revenue over expenses	**$ 56,001**	$ (18,084)

Net assets		
As previously stated	**$ 178,704**	$ 127,754
Change in accounting policy (Note 3)	**(140,391)**	(71,357)
Net assets, as restated	**38,313**	56,397
Excess (deficiency) of revenue over expenses	**56,001**	(18,084)
Net assets, end of year	**$ 94,314**	$ 38,313

Innovation Factory
Statement of Financial Position

March 31	2013	2012 (unaudited, Notes 3-4)	April 1, 2011 (unaudited, Notes 3,4)
Assets			
Current			
Cash	**$ 285,772**	$ 246,600	$ 308,461
Accounts receivable	**83,024**	56,469	3,588
HST receivable	**81,356**	29,688	11,219
Grants receivable	**127,500**	77,500	154,000
	577,652	410,257	477,268
Property and equipment (Note 5)	**65,885**	22,683	18,004
	$ 643,537	$ 432,940	$ 495,272
Liabilities			
Current			
Accounts payable and accrued liabilities	**$ 124,622**	$ 54,739	$ 89,829
Deferred revenue (Note 6)	**424,601**	339,888	349,046
	549,223	394,627	438,875
Net assets			
Invested in property and equipment	**65,885**	22,683	18,004
Unrestricted	**28,429**	15,630	38,393
	94,314	38,313	56,397
	$ 643,537	$ 432,940	$ 495,272

Commitments (Note 7)

On behalf of the board

_______________ Director _______________ Director

Innovation Factory
Statement of Cash Flows

Year ended March 31	**2013**	2012 (unaudited, Notes 3-4)
Increase (decrease) in cash		
Operating		
Excess (deficiency) of revenue over expenses	**$ 56,001**	$ (18,084)
Amortization	**14,469**	7,744
	70,470	(10,340)
Change in non-cash working capital items		
Accounts receivable	**(26,555)**	(52,881)
HST receivable	**(51,668)**	(18,469)
Grants receivable	**(50,000)**	76,500
Accounts payable and accrued liabilities	**69,883**	(35,090)
Deferred revenue	**84,713**	(9,158)
	96,843	(49,438)
Investing		
Purchase of property and equipment	**(57,671)**	(12,423)
Increase (decrease) in cash	**39,172**	(61,861)
Cash		
Beginning of year	**246,600**	308,461
End of year	**$ 285,772**	$ 246,600

Innovation Factory
Notes to the Financial Statements

March 31, 2013

1. Nature of operations

Innovation Factory is committed to helping entrepreneurs commercialize their creative and innovative ideas by providing support services, executives in residence, and community connections to their clients. The organization is incorporated by Letters Patent as a corporation without share capital under the Canada Corporations Act. It is a not-for-profit organization and is exempt from income taxes.

2. Significant accounting policies

These financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations. The significant policies are detailed as follows:

Revenue recognition

The organization follows the deferral method of accounting for contributions.

Government grants, including monies received under the organization's Core funding Contract with the Ministry of Research and Innovation and Business Acceleration Program Funding Agreement are recognized as revenue in the year in which the related expenses are incurred and are recorded in deferred revenue until spent.

Sponsorship revenue is recorded when earned and reasonable collection is assured. In-kind sponsorship revenue is recorded at fair value when the services are exchanged. The fair value of contributed services in respect of volunteer time cannot be readily calculated and, as such, the value of the services are not recognized in the financial statements.

Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Property and equipment are amortized to estimated residual values at the following annual rates over the estimated useful lives of the related assets:

Office furniture and equipment	5 years Straight-line
Leasehold improvements	10 years Straight-line
Computer equipment	3 years Straight-line

The estimated useful lives of assets are reviewed by management and adjusted if necessary.

The organization tests capital assets for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of the asset exceeds the sum of the undiscounted cash flows resulting from its use and eventual disposition. The impairment loss is measured as the amount by which the carrying amount of the long-lived asset exceeds its fair value.

Innovation Factory
Notes to the Financial Statements

March 31, 2013

2. Significant accounting policies (continued)

Financial instruments

The organization initially measures its financial assets and liabilities at fair value.

The organization subsequently measures its financial assets and financial liabilities at amortized cost.

Financial assets and liabilities measured at amortized cost include cash, accounts receivable, government remittances receivable, grants receivable and accounts payable and accrued liabilities.

Financial assets measured at cost are tested for impairment when there are indicators of impairment. Previously recognized impairment losses are reversed to the extent of the improvement provided the asset is not carried at an amount, at the date of the reversal, greater than the amount that would have been the carrying amount had no impairment loss been recognized previously. The amounts of any write-downs or reversals are recognized in the statement of operations.

Management estimates

Management reviews the carrying amounts of items in the financial statements at each balance sheet date to assess the need for revision or any possibility of impairment. Many items in the preparation of these financial statements require management's best estimate. Management determines these estimates based on assumptions that reflect the most probable set of economic conditions and planned courses of action.

These estimates are reviewed periodically and adjustments are made to excess of revenue over expenses as appropriate in the year they become known.

Items subject to significant management estimates include estimated useful lives of property and equipment.

Innovation Factory
Notes to the Financial Statements

March 31, 2013

3. Change in accounting policy

Effective April 1, 2011, the organization voluntarily elected to change its accounting policy for revenue recognition, replacing the restricted fund method with the deferral method. The change in policy has been made to provide more reliable and relevant information about the organization's financal position. The change in policy has been applied retroactively, resulting in the following adjustments:

	March 31, 2012 - as previously stated	Adjustment	March 31, 2012 - revised
Deferred revenue	$ 199,497	$ 140,391	$ 339,888
Externally restricted fund balance	156,021	(156,021)	-
Unrestricted net assets	-	15,630	15,630
Government grants revenue	847,333	(69,034)	778,299
Excess of revenue over expenses	50,950	(69,034)	(18,084)

	April 1, 2011 - as previously stated	Adjustment	April 1, 2011 - revised
Deferred revenue	$ 277,689	$ 71,357	$ 349,046
Externally restricted fund balance	91,717	(91,717)	-
Unrestricted fund balance	18,033	20,360	38,393

4. First-time adoption of Canadian accounting standards for not-for-profit organizations

These financial statements are the first financial statements for which the organization has applied Canadian accounting standards for not-for-profit organizations hereafter referred to as "ASNPO". The financial statements for the year ended March 31, 2013 were prepared in accordance with ASNPO. Comparative period information presented for the year ended March 31, 2012 was prepared in accordance with ASNPO and provisions set out in Section 1501, First-time Adoption by not-for-profit organizations.

The date of transition to ASNPO is April 1, 2011. The organization's transition to ASNPO has had no significant impact on the opening net assets as at April 1, 2011 or the statement of operations for the year ended March 31, 2012 or the statement of cash flows for the year ended March 31, 2012.

Although the statement of financial position at April 31, 2011 has been provided, the reconciliations and disclosures required by Section 1501, First-time Adoption by Not-for-Profit Organizations for the net assets at the transition date, the comparative period net income, and the cash flow statement are not necessary and have not been presented in these financial statement notes.

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Notes to the Financial Statements

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5. Property and equipment

	Cost	Accumulated Amortization	**2013** Net Book Value	2012 (unaudited, Notes 3-4) Net Book Value	2011 (unaudited, Notes 3,4) Net Book Value
Office furniture and equipment	$ 46,714	$ 6,075	**$ 40,639**	$ 5,672	$ 985
Leasehold improvements	16,366	818	**15,548**	-	-
Computer equipment	25,521	15,823	**9,698**	17,011	17,019
	$ 88,601	$ 22,716	**$ 65,885**	$ 22,683	$ 18,004

6. Deferred revenue

	Deferred revenue as at March 31, 2012	Amounts received/ receivable in the year	Amounts expended and recognized in the year	Deferred revenue as at March 31, 2013
Core operations - MRI	$ 219,857	$ 473,721	$ (523,026)	$ 170,553
BAP Fund	120,031	437,500	(303,483)	254,048
IRAP	-	72,198	(72,198)	-
	$ 339,888	$ 983,419	$ (898,707)	$ 424,601

7. Commitments

The organization has the following annual lease commitments with respect to premises:

2014	$ 66,000
2015	44,000

The above operating lease commmitment includes estimated annual taxes and operating costs of $35,000 to the end of the lease term.

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8. Financial instruments

The organization is exposed to various risks through its financial instruments. The following analysis provides a measure of the organization's risk exposures and concentrations at March 31, 2013:

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 organization's main credit risk relates to its accounts receivable and government remittances receivable. There was no significant change in exposure from the prior year.

9. Comparative figures

Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.