Grant Thornton

Financial statements

Innovation Factory

March 31, 2022

Contents

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Independent auditor's report

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To the Board of Directors of
Innovation Factory

Opinion

We have audited the financial statements of the Innovation Factory, ("the Organization"), which comprise the statement of financial position as at March 31, 2022 and the statements of operations and 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 Innovation Factory as at March 31, 2022, 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 Organization 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 Organization'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 Organization or to cease operations, or has no realistic alternative but to do so.

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

Grant Thornton LLP

Hamilton, Canada
September 22, 2022

Chartered Professional Accountants
Licensed Public Accountants

Innovation Factory
Statements of operations and changes in net assets

Year ended March 31	2022	2021
Revenue		
Grants		
Southern Ontario Pharmaceutical and Health Innovation Ecosystem (SOPHIE)	**$ 1,698,551**	$ -
Autonomous Vehicle Innovation Network (AVIN) – Ontario Centres of Innovation	**1,562,586**	1,503,984
Regional Innovation Centre – Ministry of Economic Development, Job Creation and Technology (MEDJCT)	**584,680**	448,002
Business Acceleration Program (BAP) – MEDJCT (2021 - MaRS Discovery District)	**367,500**	367,500
Hamilton Ecosystem to Accelerate and Leverage Technology in Health Innovation (HEALTHI)	**135,000**	-
Digital Main Street (DMS) – Communitech	**64,633**	120,531
Amortization of deferred capital contributions	**1,016,413**	808,889
Operating sponsorships	**142,826**	207,995
In-kind operational services for equipment	**128,169**	38,437
Synapse – Corporate sponsored program	**106,950**	140,167
Sponsorship for events	**47,500**	3,751
Sponsorships in-kind	**11,000**	89,202
	5,865,808	3,728,458
Expenses (Note 7)		
Salaries and employee benefits	**2,007,350**	1,589,563
Program expenses	**1,588,144**	186,195
Amortization	**1,016,413**	808,889
Partner contribution	**523,970**	750,926
Facility	**239,831**	113,356
Marketing and outreach	**187,945**	44,775
In-kind operational services for equipment	**128,169**	38,437
Operating expenses	**112,374**	46,711
Professional fees	**51,612**	56,653
In-kind sponsorship expenses	**10,000**	89,202
	5,865,808	3,724,707
Excess of revenue over expenses	**$ -**	$ 3,751
Net assets, beginning of year	**$ 101,279**	$ 97,528
Excess of revenue over expenses	**-**	3,751
Net assets, end of year	**$ 101,279**	$ 101,279

See accompanying notes to the financial statements.

Innovation Factory
Statement of financial position

March 31		2022		2021
Assets				
Current				
Cash	**$**	**482,474**	$	379,429
Accounts receivable		**649,822**		96,725
HST receivable		**52,928**		124,980
Prepaid expenses		**17,062**		46,308
		1,202,286		647,442
Property and equipment (Note 3)		**886,302**		1,748,096
	$	**2,088,588**	$	2,395,538
Liabilities				
Current				
Accounts payable and accrued liabilities (Note 4)	**$**	**580,678**	$	119,895
Deferred revenue (Note 5)		**520,329**		426,268
		1,101,007		546,163
Deferred capital contributions (Note 6)		**886,302**		1,748,096
		1,987,309		2,294,259
Net assets				
Unrestricted		**101,279**		101,279
	$	**2,088,588**	$	2,395,538

Commitment (Note 9)

On behalf of the Board:

______________________________Director ______________________________Director

See accompanying notes to the financial statements.

Innovation Factory
Statement of cash flows

Year ended March 31	2022	2021
Increase (decrease) in cash		
Operating activities		
Excess of revenue over expenses	$ -	$ 3,751
Amortization of capital assets	1,016,413	808,889
Amortization of deferred capital contributions	(1,016,413)	(808,889)
	-	3,751
Change in non-cash working capital items		
Accounts receivable	(553,097)	25,891
HST receivable	72,052	(106,998)
Prepaid expenses	29,246	34,647
Accounts payable and accrued liabilities	460,783	74,779
Deferred revenue	94,061	40,672
	103,045	68,991
Increase in cash	103,045	72,742
Cash, beginning of year	379,429	306,687
Cash, end of year	$ 482,474	$ 379,429

See accompanying notes to the financial statements.

Innovation Factory
Notes to the financial statements
March 31, 2022

1. Nature of operations

Innovation Factory (the organization) 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 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 and operational services 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:

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, 2022

2. Significant accounting policies (continued)

Financial instruments

Measurement
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, prepaid expenses, and accounts payable.

Impairment
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 property and equipment and the computer equipment put into use during the year.

Innovation Factory
Notes to the financial statements
March 31, 2022

3. Property and equipment

	Cost	Accumulated Amortization	2022 Net Book Value	2021 Net Book Value
Computer equipment	$ 3,105,094	$ 2,218,792	**$ 886,302**	$ 1,748,096

4. Government remittances payable

Included in accounts payable and accrued liabilities is $21,922 (2021 - $9,448) in government remittances payable.

5. Deferred revenue

	Deferred revenue as at March 31, 2021	Amounts received/ receivable in the year	Amounts expended and recognized in the year	**Deferred revenue as at March 31, 2022**
AVIN	$ 83,391	$ 1,500,000	$ 1,560,749	**$ 22,642**
BAP	-	412,500	397,500	**15,000**
Core operations – MEDJCT	249,486	584,680	834,166	**-**
DMS	14,469	50,164	64,633	**-**
HEALTHI	-	164,993	135,000	**29,993**
Other	-	62,500	-	**62,500**
Synapse	78,922	2,116,772	1,805,500	**390,194**
	$ 426,268	$ 4,891,609	$ 4,797,548	**$ 520,329**

6. Deferred capital contributions

Deferred capital contributions represent the unamortized portion of contributed IT equipment which was received by a partnering company to be used in the AVIN Project. The amortization of deferred capital contributions is recorded as revenue in the statement of operations. The deferred capital contributions balance is comprised as follows:

	2022	2021
Balance, beginning of year	**$ 1,748,096**	$ 2,373,297
Contributions received during the year	**154,619**	183,688
Amortization of deferred capital contributions	**(1,016,413)**	(808,889)
Balance, end of year	**$ 886,302**	$ 1,748,096

Innovation Factory
Notes to the financial statements
March 31, 2022

7. Program and operating expenses by funding source

	2022	2021
AVIN		
Salaries and employee benefits	**$ 793,801**	$ 619,842
Partner contribution	**523,970**	750,926
Program expenses	**115,492**	98,569
Facility	**129,323**	34,647
In-kind sponsorship expense	**-**	58,870
	1,562,586	1,562,854
BAP		
Salaries and employee benefits	**363,740**	344,691
Events	**47,500**	-
Training	**3,760**	1,911
Program expenses	**-**	20,898
	415,000	367,500
Synapse - SOPHIE		
Program expenses	**1,251,073**	-
Salaries and employee benefits	**248,085**	-
Other non-capital costs	**167,675**	-
Facility	**31,718**	-
	1,698,551	-
Synapse		
Program expenses	**135,000**	1,580
Salaries and employee benefits	**47,335**	138,587
Other	**59,616**	-
	241,951	140,167
MEDJCT Operating		
Salaries and employee benefits	**422,837**	431,060
Facility	**78,790**	78,709
Professional fees	**51,612**	56,653
Other expenses	**36,889**	24,471
Marketing and outreach	**24,504**	44,775
Office supplies	**13,873**	20,329
In-kind sponsorship expenses	**10,000**	30,332
	638,505	686,329
MEDJCT - Wayfinder		
Salaries and employee benefits	**97,855**	-
Other	**2,145**	-
	100,000	-
DMS		
Salaries and employee benefits	**33,697**	55,383
Program expenses	**30,936**	65,148
	64,633	120,531
Amortization	**1,016,413**	808,889
In-kind operational services for equipment	**128,169**	38,437
	1,144,582	847,326
Total	**$ 5,865,808**	$ 3,724,707

Innovation Factory
Notes to the financial statements
March 31, 2022

8. Credit facility

The organization has available a line of credit in the amount of $75,000, bearing interest at prime plus 2%. As at March 31, 2022 the outstanding balance was $Nil (2021 - $Nil).

9. Lease commitment

The organization signed a lease agreement for premises for the period from July 1, 2019 to June 30, 2022. The future minimum lease payments are as follows:

2023	$ 14,822

10. Financial instruments

Transactions in financial instruments may result in an entity assuming or transferring to another party one or more of the financial risks described below. The required disclosures provide information that assists users of the financial statements in assessing the extended risk related to financial instruments. The organization is primarily exposed to credit and liquidity risks. There have been no changes to the nature of the risk exposure from prior year.

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. There was no significant change in exposure from the prior year.

Liquidity risk
Liquidity risk is the risk the organization will encounter difficulty in raising funds to meet commitments associated to its financial liabilities. The organization is exposed to liquidity risk through its accounts payable and accrued liabilities. The organization manages liquidity risk through regular monitoring of budget and actual cash flows to ensure it has sufficient funds to meet current and foreseeable financial obligations.