

Financial Statements

The Canadian Institute for Advanced
Research -

L'Institut Canadien de Recherches Avancées

June 30, 2019

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Independent Auditor's Report

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To the Members of
The Canadian Institute for Advanced Research -
L'Institut Canadien de Recherches Avancées

Opinion

We have audited the financial statements of The Canadian Institute for Advanced Research – L'Institut Canadien de Recherches Avancées (“CIFAR”), which comprise the statement of financial position as at June 30, 2019, 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 CIFAR as at June 30, 2019, 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 CIFAR 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 CIFAR'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 CIFAR or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing CIFAR'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 CIFAR'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 CIFAR'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 CIFAR 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

Toronto, Canada
September 24, 2019

Chartered Professional Accountants
Licensed Public Accountants

**The Canadian Institute for Advanced Research -
L'Institut Canadien de Recherches Avancées**
Statement of Financial Position

(in thousands, unless otherwise noted)

June 30

2019

2018

Assets

Current

| | | |
|------------------------------|----------|----------|
| Cash | \$ 1,658 | \$ 2,110 |
| Accounts receivable (Note 3) | 2,650 | 2,777 |
| Investments (Note 4) | 8,500 | 9,000 |
| Prepaid expenses | 234 | 230 |

13,042 14,117

| | | |
|---|--------|--------|
| Investments (Note 4) | 19,745 | 18,688 |
| Property, equipment and leasehold improvements (Note 5) | 1,510 | 1,566 |
| Intangible assets (Note 5) | 348 | 120 |

\$ 34,645 \$ 34,491

Liabilities

Current

| | | |
|--|----------|----------|
| Accounts payable and accrued liabilities | \$ 8,122 | \$ 5,139 |
| Deferred revenue (Note 6) | 4,549 | 5,708 |
| Deferred tenant allowance (Note 6) | 40 | 40 |

12,711 10,887

| | | |
|------------------------------------|-----|-------|
| Deferred revenue (Note 6) | 868 | 2,393 |
| Deferred tenant allowance (Note 6) | 281 | 321 |

13,860 13,601

Net assets

| | | |
|---|--------|--------|
| Invested in property, equipment, leasehold improvements and intangible assets | 1,537 | 1,325 |
| Externally restricted endowment fund | 500 | 474 |
| Internally restricted reserve | 10,000 | 10,000 |
| Unrestricted | 8,748 | 9,091 |

20,785 20,890

\$ 34,645 \$ 34,491

Commitments (Note 9)

On behalf of the Board of Directors

 Director

 Director

See accompanying notes to the financial statements.

The Canadian Institute for Advanced Research - L'Institut Canadien de Recherches Avancées

Statement of Operations

(in thousands, unless otherwise noted)

| Year ended June 30 | 2019 | 2018 |
|--|-----------------|-----------------|
| Revenue | | |
| Program contributions (Note 6) | | |
| Government funding (Note 3) | | |
| Federal | | |
| Operational funding | \$ 7,000 | \$ 7,000 |
| Pan-Canadian AI Strategy | 22,823 | 5,723 |
| Provincial | <u>7,450</u> | <u>7,044</u> |
| | <u>37,273</u> | <u>19,767</u> |
| Partnerships | | |
| Research organizations | 3,027 | 2,643 |
| Universities and others | <u>171</u> | <u>245</u> |
| | <u>3,198</u> | <u>2,888</u> |
| Private sector | | |
| Corporations | 895 | 853 |
| Foundations | 2,941 | 3,488 |
| Individuals | <u>1,353</u> | <u>1,779</u> |
| | <u>5,189</u> | <u>6,120</u> |
| Investment income (Note 4(b)) | <u>1,054</u> | <u>1,574</u> |
| | <u>46,714</u> | <u>30,349</u> |
| Expenses | | |
| Program expenses | | |
| Knowledge creation (Note 7(a)) | 14,586 | 15,161 |
| Pan-Canadian AI Strategy (Note 7(b)) | 23,460 | 6,018 |
| Knowledge mobilization and communications | 3,940 | 2,803 |
| Next generation (Note 7(c)) | <u>1,801</u> | <u>2,250</u> |
| | <u>43,787</u> | <u>26,232</u> |
| Non-program expenses (Note 7(d)) | <u>3,048</u> | <u>2,581</u> |
| | <u>46,835</u> | <u>28,813</u> |
| (Deficiency) excess of revenue over expenses from operations | (121) | 1,536 |
| Unrealized gain (loss) on investments | <u>16</u> | <u>(40)</u> |
| (Deficiency) excess of revenue over expenses | <u>\$ (105)</u> | <u>\$ 1,496</u> |

See accompanying notes to the financial statements.

The Canadian Institute for Advanced Research - L'Institut Canadien de Recherches Avancées

Statement of Changes in Net Assets

| (in thousands, unless otherwise noted) Year ended June 30 | Invested in property, equipment, leasehold improvements and intangible assets | Externally restricted endowment fund | Internally restricted reserve | Unrestricted | 2019 Total | 2018 Total |
|--|---|---|-------------------------------------|------------------------|-------------------------|-------------------------|
| Balance, beginning of year | \$ 1,325 | \$ 474 | \$ 10,000 | \$ 9,091 | \$ 20,890 | \$ 19,394 |
| (Deficiency) excess of revenue over expenses | (304) | - | - | 199 | (105) | 1,496 |
| Transfer from unrestricted to externally restricted endowment fund | - | 26 | - | (26) | - | - |
| Investment in property, equipment, leasehold improvements and intangible assets | <u>516</u> | <u>-</u> | <u>-</u> | <u>(516)</u> | <u>-</u> | <u>-</u> |
| Balance, end of year | <u>\$ 1,537</u> | <u>\$ 500</u> | <u>\$ 10,000</u> | <u>\$ 8,748</u> | <u>\$ 20,785</u> | <u>\$ 20,890</u> |

See accompanying notes to the financial statements.

**The Canadian Institute for Advanced Research -
L'Institut Canadien de Recherches Avancées**
Statement of Cash Flows

(in thousands, unless otherwise noted)

| Year ended June 30 | 2019 | 2018 |
|--|-----------------|-----------------|
| Operating activities | | |
| (Deficiency) excess of revenue over expenses | \$ (105) | \$ 1,496 |
| Items not involving cash | | |
| Amortization of property, equipment, leasehold improvements and intangible assets | 344 | 268 |
| Amortization of deferred tenant allowance | (40) | (42) |
| Deferred revenue recognized (Note 6) | (45,660) | (28,775) |
| Unrealized (gain) loss on investments | (16) | 40 |
| | <u>(45,477)</u> | <u>(27,013)</u> |
| Change in non-cash working capital items | | |
| Accounts receivable | 127 | 1,248 |
| Prepaid expenses | (4) | 68 |
| Accounts payable and accrued liabilities | 2,983 | 945 |
| Deferred revenue received (Note 6) | 42,976 | 32,843 |
| | <u>46,082</u> | <u>35,104</u> |
| | <u>605</u> | <u>8,091</u> |
| Investing activities | | |
| Proceeds on sale of investments, net | - | 1,701 |
| Purchase of investments | (541) | (9,000) |
| Investment in property, equipment, leasehold improvements and intangible assets | (516) | (121) |
| | <u>(1,057)</u> | <u>(7,420)</u> |
| (Decrease) increase in cash during the year | (452) | 671 |
| Cash, beginning of year | <u>2,110</u> | <u>1,439</u> |
| Cash, end of year | <u>\$ 1,658</u> | <u>\$ 2,110</u> |

The Canadian Institute for Advanced Research - L'Institut Canadien de Recherches Avancées

Notes to the Financial Statements

(In thousands, unless otherwise noted)

June 30, 2019

1. Nature of operations

The Canadian Institute for Advanced Research - L'Institut Canadien de Recherches Avancées ("CIFAR") is incorporated under the Canada Corporations Act as a not-for-profit organization and has continued under the Canada Not-for-Profit Corporations Act. CIFAR is also a registered charity under the Income Tax Act (Canada). The primary objective of CIFAR is to bring leading researchers together to work on major collaborative advanced research projects that address scientific, economic and social questions that are of importance to the future of Canada and the world. CIFAR funds multi-year projects that bridge institutional, regional, cultural and national boundaries. The funding provided by CIFAR contributes to research support and compensation of program members.

In common with other not-for-profit organizations, CIFAR is economically dependent on the continued financial support of federal and provincial governments, partnerships and the private sector to meet its ongoing commitments.

2. Summary of significant accounting policies

Basis of presentation

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations (ASNPO) using the deferral fund method for reporting externally restricted contributions. ASNPO are part of Canadian generally accepted accounting principles. ASNPO requires entities to select policies appropriate for their circumstances from policies in these standards. The following are the policies selected by CIFAR and applied in these financial statements.

Financial instruments

CIFAR considers any contract creating a financial asset, liability or equity instrument as a financial instrument. CIFAR's financial instruments comprise cash, accounts receivable, investments, and accounts payable.

Cash, accounts receivable and accounts payable

Cash, accounts receivable and accounts payable are initially measured at fair value and subsequently recorded at amortized cost.

The Canadian Institute for Advanced Research - L'Institut Canadien de Recherches Avancées

Notes to the Financial Statements

(In thousands, unless otherwise noted)

June 30, 2019

2. Summary of significant accounting policies (continued)

Financial instruments (continued)

Investments

Investments deferred for future years (Note 4) represent externally restricted unspent funding received from federal and provincial governments, partnerships and the public and private sector. The investments in the externally restricted endowment fund and internally restricted net assets (Note 4) comprise GICs and short-term deposits and investments in a long-term equity portfolio. Cash and short-term deposits are initially measured at fair value and subsequently recorded at amortized cost and consist of highly liquid, interest bearing instruments with maturities of three months or less or which can be liquidated without significant penalty. The long-term equity portfolio is measured at fair value based upon active market quoted rates using the monthly closing bid price. Unrealized gains or losses are recognized in the statement of operations.

Property, equipment and leasehold improvements

Property, equipment and leasehold improvements are recorded at cost and are amortized over their estimated useful lives as follows:

| | |
|------------------------|--|
| Computer hardware | Straight-line over 3 years |
| Leasehold improvements | Straight-line over remaining life of the lease |

Intangible assets

Intangible assets consist of computer software and are recorded at cost and are amortized over their estimated useful lives of 5 years.

Externally restricted endowment fund

The externally restricted endowment fund represents restricted contributions subject to externally imposed restrictions specifying that the resources contributed be maintained permanently and are subject to CIFAR's preservation of capital policy unless otherwise specified by the donor. CIFAR's preservation of capital policy allows for the encroachment of capital to cover realized or unrealized losses and disbursements in excess of investment income on the basis that the capital will be replenished by future net investment income. Investment income realized on these funds is unrestricted and maintained within the unrestricted fund unless otherwise restricted by the donor.

Internally restricted reserve

The internally restricted reserve represents net assets restricted by the Board of Directors (the "Board") for specific purposes. These amounts are not available for other purposes without the approval of the Board. Investment income realized on these funds is unrestricted. Transfers are determined based on CIFAR's objectives, policies and processes for managing capital.

The Canadian Institute for Advanced Research - L'Institut Canadien de Recherches Avancées

Notes to the Financial Statements

(In thousands, unless otherwise noted)

June 30, 2019

2. Summary of significant accounting policies (continued)

Deferred tenant allowance

Deferred tenant allowance represents cash received from the landlord pursuant to the lease agreement for premises occupied by CIFAR. The allowance is amortized against rent expense over the term of the lease.

Revenue recognition

Endowment contributions are recognized as direct increases in net assets in the year in which they are received.

Externally restricted contributions received are recorded as deferred revenue and recognized as revenue in the year in which the related expenses are incurred or in the year they are designated for.

Unrestricted contributions are recognized as revenue when received or receivable and measurement is reasonably assured.

Contributed goods and services

Contributed goods and services are not recognized in these financial statements due to the difficulty in determining their fair value.

Foreign currency translation

CIFAR translates balances denominated in foreign currencies at the exchange rates in effect at the date of the statement of financial position for monetary assets and liabilities, and the average exchange rates during the year for revenue and expenses. Unrealized translation gains and losses are recognized in the statement of operations.

Allocation of expenses

CIFAR allocates personnel, rent and overhead expenses on the following basis:

- i) President's office expenses - based on the proportion of time the President's office personnel spend overseeing each department; and
- ii) Rent and overhead expenses - based upon head count for each department.

The Canadian Institute for Advanced Research - L'Institut Canadien de Recherches Avancées

Notes to the Financial Statements

(In thousands, unless otherwise noted)

June 30, 2019

3. Government funding

(a) Government of Canada

Effective April 1, 2017, CIFAR entered into a five-year agreement with the Government of Canada to provide funding in the amount of \$35 million, to be disbursed to CIFAR at a rate of \$7 million per annum. During the year, CIFAR recognized revenue of \$7 million (2018 - \$7 million) under this agreement. A quarterly instalment of \$1.75 million (2018 - \$1.75 million) for the period April 1, 2019 to June 30, 2019 has been accrued at year end. As at June 30, 2019, \$15.75 million has been received or is receivable, \$15.75 million has been recognized and \$19.25 million remains to be recognized under this agreement.

In accordance with the funding agreement, CIFAR will commit to seek additional financial contributions of \$35 million from non-federal sources over the term of the agreement.

In March 2017, the Government of Canada announced it would invest \$125 million in a Pan-Canadian Artificial Intelligence (AI) Strategy (“the AI Strategy”) led by CIFAR. This investment will ensure that Canada retains, attracts, and trains top research talent in deep learning and reinforcement learning. The AI Strategy will also support research and policy outreach on the economic, ethical, policy, and legal issues related to the advent of AI, and is designed to provide a strong foundation of research excellence so that all Canadians benefit from the continuing developments of AI. In leading this strategy, CIFAR will be instrumental in developing a game-changing AI ecosystem, and championing a strong foundation of research excellence on which to build Canadian pre-eminence in AI. It is a five-year agreement with the department of Innovation, Science and Economic Development. During the year, CIFAR recognized revenue of \$22.82 million (2018 - \$5.72 million). As at June 30, 2019, \$28.63 million has been received or is receivable, \$28.63 million has been recognized and \$96.37 million remains to be recognized under this agreement.

(b) Government of British Columbia

Effective March 2018, CIFAR entered into a two-year agreement with the Government of British Columbia to receive funding of \$4 million restricted to certain programs and certain expenditures within those programs. During the year, CIFAR recognized \$2 million (2018 - \$Nil) in accordance with the restrictions under this agreement. As at June 30, 2019, all funding has been received, \$2 million has been recognized and \$2 million remains to be recognized under this agreement.

The Canadian Institute for Advanced Research - L'Institut Canadien de Recherches Avancées

Notes to the Financial Statements

(In thousands, unless otherwise noted)

June 30, 2019

3. Government funding (continued)

(c) Government of Ontario

Effective April 2018, CIFAR entered into a five-year agreement with the Ministry of Research and Innovation of Ontario to receive funding of \$20 million in installments of \$4 million per annum. During the year, CIFAR received and recognized \$4 million (2018 - \$Nil) under this agreement. As at May 16, 2019, this agreement has been terminated. All funding has been received and recognized.

(d) Government of Alberta

Effective March 2017, CIFAR entered into a three-year agreement with the Government of Alberta to receive funding of \$1.8 million, in installments of \$1.2 million and \$600, restricted to certain programs and certain expenditures within these programs. During the year, CIFAR recognized revenue of \$300 (2018 - \$600) in accordance with the restrictions. As at June 30, 2019, all funding has been received and recognized under this agreement.

(e) Government of Quebec

Effective January 2015, CIFAR entered into a five-year agreement with the Government of Quebec to receive funding of \$600, in installments of \$150 per annum, restricted to certain programs and certain expenditures within these programs. During the year, CIFAR recognized revenue of \$150 (2018 - \$150) in accordance with the restrictions under this agreement. As at June 30, 2019, \$600 has been received or is receivable, \$544 has been recognized and \$56 remains to be recognized under this agreement.

Effective June 2017, CIFAR entered into a five-year agreement with the Government of Quebec to receive funding of \$3 million, in installments of \$600 per annum. During the year, CIFAR recognized revenue of \$600 (2018 - \$600) under this agreement. As at June 30, 2019, \$1.2 million has been received or is receivable, \$1.2 million has been recognized and \$1.8 million remains to be recognized under this agreement.

Effective April 2018, CIFAR entered into a four-year agreement with the Government of Quebec to receive funding of \$1.6 million, in installments of \$400 per annum. During the year, CIFAR recognized revenue of \$400 (2018 - \$Nil) under this agreement. As at June 30, 2019, \$400 has been received or is receivable, \$400 has been recognized and \$1.2 million remains to be recognized under this agreement.

The Canadian Institute for Advanced Research - L'Institut Canadien de Recherches Avancées

Notes to the Financial Statements

(In thousands, unless otherwise noted)

June 30, 2019

4. Investments

| | Deferred for future years | Externally restricted endowment fund | Internally restricted | 2019 Total | 2018 Total |
|------------------------------|------------------------------------|---|--------------------------|-------------------------|-------------------------|
| GICs and short-term deposits | \$ 8,500 | \$ - | \$ - | \$ 8,500 | \$ 9,000 |
| Long-term equity portfolio | <u>9,245</u> | <u>500</u> | <u>10,000</u> | <u>19,745</u> | <u>18,688</u> |
| | 17,745 | 500 | 10,000 | 28,245 | 27,688 |
| Less: current portion | <u>(8,500)</u> | <u>-</u> | <u>-</u> | <u>(8,500)</u> | <u>(9,000)</u> |
| | <u>\$ 9,245</u> | <u>\$ 500</u> | <u>\$ 10,000</u> | <u>\$ 19,745</u> | <u>\$ 18,688</u> |

(a) As at June 30, 2019, the investments deferred for future years represent funds received from the private and public sector and partnerships that have been deferred in accordance with the various agreements held with the donors.

(b) Interest income realized on GICs and short-term deposits of \$105 (2018 - \$106) has been included in investment income for the year.

Investment income realized on the long-term equity portfolio of \$949 (2018 - \$1,468) has been included in investment income for the year.

5. Property, equipment, leasehold improvements and intangible assets

Property, equipment and leasehold improvements

| | Cost | Accumulated Amortization | 2019 Net | 2018 Net |
|------------------------|------------------------|-----------------------------|------------------------|------------------------|
| Computer hardware | \$ 125 | \$ 74 | \$ 51 | \$ 43 |
| Leasehold improvements | <u>1,885</u> | <u>426</u> | <u>1,459</u> | <u>1,523</u> |
| | <u>\$ 2,010</u> | <u>\$ 500</u> | <u>\$ 1,510</u> | <u>\$ 1,566</u> |

Intangible assets

| | Cost | Accumulated Amortization | 2019 Net | 2018 Net |
|----------|--------|-----------------------------|---------------------|-------------|
| Software | \$ 644 | \$ 296 | \$ 348 | \$ 120 |

The Canadian Institute for Advanced Research - L'Institut Canadien de Recherches Avancées

Notes to the Financial Statements

(In thousands, unless otherwise noted)
June 30, 2019

6. Deferred revenue and deferred tenant allowance

| | Deferred revenue beginning of year | Received or receivable during year | Less: Amounts accrued in previous years | Recognized as revenue | Deferred revenue end of year | Less: current portion | Deferred revenue long-term portion |
|-----------------------------------|---|--|---|---------------------------|------------------------------------|-----------------------------|---|
| 2019 | | | | | | | |
| Government of Canada | \$ - | \$ 7,000 | \$ - | \$ (7,000) | \$ - | \$ - | \$ - |
| Government of Canada, AI Strategy | 1,690 | 21,133 | - | (22,823) | - | - | - |
| Government of British Columbia | 4,000 | - | - | (2,000) | 2,000 | (2,000) | - |
| Government of Ontario | - | 4,000 | - | (4,000) | - | - | - |
| Government of Alberta | - | 600 | (300) | (300) | - | - | - |
| Government of Quebec | 81 | 1,150 | - | (1,150) | 81 | (81) | - |
| | <u>4,081</u> | <u>5,750</u> | <u>(300)</u> | <u>(7,450)</u> | <u>2,081</u> | <u>(2,081)</u> | <u>-</u> |
| Total government funding | 5,771 | 33,883 | (300) | (37,273) | 2,081 | (2,081) | - |
| Partnerships | 244 | 3,012 | - | (3,198) | 58 | (58) | - |
| Private sector | <u>2,086</u> | <u>6,381</u> | <u>-</u> | <u>(5,189)</u> | <u>3,278</u> | <u>(2,410)</u> | <u>868</u> |
| | <u>\$ 8,101</u> | <u>\$ 43,276</u> | <u>\$ (300)</u> | <u>\$ (45,660)</u> | <u>\$ 5,417</u> | <u>\$ (4,549)</u> | <u>\$ 868</u> |
| Deferred tenant allowance | <u>\$ 361</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (40)</u> | <u>\$ 321</u> | <u>\$ (40)</u> | <u>\$ 281</u> |
| 2018 | <u>\$ 4,033</u> | <u>\$ 32,930</u> | <u>\$ (87)</u> | <u>\$ (28,775)</u> | <u>\$ 8,101</u> | <u>\$ (5,708)</u> | <u>\$ 2,393</u> |
| Deferred tenant allowance | <u>\$ 403</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (42)</u> | <u>\$ 361</u> | <u>\$ (40)</u> | <u>\$ 321</u> |

The Canadian Institute for Advanced Research - L'Institut Canadien de Recherches Avancées

Notes to the Financial Statements

(In thousands, unless otherwise noted)

June 30, 2019

7. Expenses

| | <u>2019</u> | <u>2018</u> |
|--|------------------|------------------|
| a) Knowledge creation | | |
| Program activities | | |
| <i>Building Strong Societies</i> | | |
| Institutions, Organizations and Growth | \$ 816 | \$ 833 |
| Successful Societies | 692 | 760 |
| Social Interactions, Identity and Well-Being | <u>(2)</u> | <u>47</u> |
| | <u>1,506</u> | <u>1,640</u> |
| <i>Sustaining the Earth</i> | | |
| Cosmology and Gravity | 814 | 809 |
| Integrated Microbial Biodiversity | <u>10</u> | <u>168</u> |
| | <u>824</u> | <u>977</u> |
| <i>Improving Human Health</i> | | |
| Azrieli Program in Brain, Mind and Consciousness | 1,897 | 1,634 |
| Child and Brain Development | 894 | 1,002 |
| Humans and the Microbiome | 840 | 886 |
| Genetic Networks | 656 | 678 |
| Molecular Architecture of Life | <u>796</u> | <u>657</u> |
| | <u>5,083</u> | <u>4,857</u> |
| <i>Transforming Technology</i> | | |
| Learning in Machines and Brains | 1,250 | 1,211 |
| Quantum Materials | 1,134 | 1,134 |
| Quantum Information Science | 849 | 829 |
| Bio-inspired Solar Energy | <u>745</u> | <u>808</u> |
| | <u>3,978</u> | <u>3,982</u> |
| | 11,391 | 11,456 |
| Programs, support | <u>3,195</u> | <u>3,705</u> |
| | <u>\$ 14,586</u> | <u>\$ 15,161</u> |
| (b) Pan-Canadian AI Strategy | | |
| <i>Chairs Program</i> | \$ 14,143 | \$ - |
| <i>Institution Support</i> | 7,553 | 5,000 |
| <i>National Activities</i> | 241 | 46 |
| <i>AI Secretariat</i> | 1,155 | 729 |
| <i>AI & Society</i> | <u>368</u> | <u>243</u> |
| | <u>\$ 23,460</u> | <u>\$ 6,018</u> |

The Canadian Institute for Advanced Research - L'Institut Canadien de Recherches Avancées

Notes to the Financial Statements

(In thousands, unless otherwise noted)
June 30, 2019

7. Expenses (continued)

| | <u>2019</u> | <u>2018</u> |
|--|-----------------|-----------------|
| (c) Next generation | | |
| <i>CIFAR Azrieli Global Scholars Program</i> | \$ 1,798 | \$ 2,058 |
| <i>Global Scholars Academy</i> | <u>3</u> | <u>192</u> |
| | <u>\$ 1,801</u> | <u>\$ 2,250</u> |
| (d) Non-program expenses | | |
| <i>Advancement</i> | \$ 2,311 | \$ 1,916 |
| <i>Governance and administration</i> | <u>737</u> | <u>665</u> |
| | <u>\$ 3,048</u> | <u>\$ 2,581</u> |

8. Allocation of expenses

President's office expenses and rent and overhead expenses of \$846 (2018 - \$709) and \$3,153 (2018 - \$2,778), respectively, have been allocated as follows:

| | <u>President's office expenses</u> | | <u>Rent and overhead</u> | |
|---|------------------------------------|---------------|--------------------------|-----------------|
| | <u>2019</u> | 2018 | <u>2019</u> | 2018 |
| Knowledge creation | \$ 423 | \$ 354 | \$ 607 | \$ 851 |
| Pan-Canadian AI Strategy | - | - | 135 | 79 |
| Knowledge mobilization and communications | 254 | 213 | 1,406 | 709 |
| Non-program expenses | | | | |
| Advancement | 169 | 142 | 446 | 461 |
| Governance and administration | <u>-</u> | <u>-</u> | <u>559</u> | <u>678</u> |
| | <u>\$ 846</u> | <u>\$ 709</u> | <u>\$ 3,153</u> | <u>\$ 2,778</u> |

9. Commitments

CIFAR is committed to the rental of office premises until 2027 and equipment until 2022. Minimum annual payments are as follows:

| | |
|------------------|--------|
| 2020 | \$ 733 |
| 2021 | 733 |
| 2022 | 739 |
| 2023 | 747 |
| 2024 | 746 |
| Subsequent years | 1,985 |

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10. Financial instruments

Transactions in financial instruments may result in CIFAR assuming or transferring to another party one or more of the financial risks described below. There were no changes in the nature of risks from prior years.

Currency, interest rate and market risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. CIFAR operates and invests internationally giving rise to currency risk. Consequently, some assets and liabilities are exposed to foreign exchange fluctuations. As at June 30, 2019, cash and short-term deposits and investments denominated in U.S. currency amounted to \$38 USD (2018 - \$2 USD) and \$Nil USD (2018 - \$ Nil USD), respectively. Accounts payable denominated in U.S. currency amounted to \$782 USD (2018 - \$680 USD).

Interest rate price risk is the risk that the fair value of an interest bearing financial instrument will fluctuate due to changes in market interest rates. Interest rate cash flow risk is the risk that cash flows will fluctuate due to changes in market interest rates. CIFAR's exposure to interest rate price risk is limited to its fixed interest bearing investments of \$8.5 million (2018 - \$9). CIFAR's interest rate cash flow risk is limited to its variable interest bearing investments of \$Nil (2018 - \$ Nil). CIFAR is exposed to certain market risks which cause the fair value of its investments to fluctuate.

To protect against currency, interest rate and market risk, management has developed an investment policy which requires investments to meet specific requirements. CIFAR's investment policy governs the investment decisions and is intended to mitigate currency, interest rate and market risk. As a result, it is management's opinion that CIFAR is not exposed to significant currency, interest rate and market risk arising from its financial instruments.

Credit risk

Credit risk is the risk that a counterparty will not be able to discharge its obligations to CIFAR. CIFAR reduces its exposure to credit risk by assessing credit on a regular basis and providing for an allowance for doubtful accounts when applicable. At June 30, 2019, the allowance for doubtful accounts is \$Nil (2018 - \$Nil). It is management's opinion that CIFAR is not exposed to significant credit risk given the nature of accounts receivable.

Liquidity risk

Liquidity risk is the risk that CIFAR will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. CIFAR is exposed to liquidity risk mainly in respect to accounts payable.

CIFAR manages its liquidity risk by forecasting cash flows from operations, investing and financing activities to ensure that it has sufficient funds available to meet current and foreseeable financial obligations. As a result, it is management's opinion that CIFAR is not exposed to significant liquidity risk arising from its financial instruments.

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11. Pension plan

Eligible employees of CIFAR are members of the University of Toronto's defined benefit pension plan. Accordingly, the information that would normally be required to be disclosed is not available. As a result, disclosure is limited to disclosing contributions to the plan. Cash contributions made during the year were \$487 (2018 - \$387).

12. Comparative amounts

Certain comparative amounts have been reclassified from those previously presented to conform to the presentation of the 2019 financial statements.