



Financial statements

Innovate BC

March 31, 2023

Contents

	Page
Statement of Management Responsibility	
Independent Auditor's Report	1 - 3
Statement of Financial Position	4
Statement of Operations and Accumulated Operating Surplus	5
Statement of Remeasurement Gains and Losses	6
Statement of Changes in Net Financial Assets	7
Statement of Cash Flows	8
Notes to the Financial Statements	9 - 17

Statement of Management Responsibility

Scope of Responsibility

Management has supervised preparation of the accompanying financial statements and related note disclosures and is responsible for their integrity and objectivity. The financial statements of Innovate BC have been prepared by management in accordance with Canadian public sector accounting standards.

We believe that these financial statements present fairly Innovate BC's financial position as at March 31, 2023 and the statement of operations and accumulated surplus, change in net financial assets, changes in net remeasurement gains and losses and cash flows for the year ending March 31, 2023 and that the other information contained in the entity's annual report is consistent with the financial statements as presented.

Internal Controls

Management is responsible for the integrity of the financial statements and has established systems of internal controls to provide reasonable assurance that transactions are properly authorized, assets are safeguarded, and financial records are properly maintained to facilitate the preparation of the financial statements in a timely manner. We continually monitor these internal accounting controls, modifying and improving them as business conditions and operations change. We believe our system of internal accounting controls provide reasonable assurance that errors or irregularities that would be material to the financial statements are prevented or detected in the normal course of business.

Board of Directors and Audit and Finance Committee

The Board of Directors is responsible for reviewing and approving the financial statements and overseeing management's discharge of its financial reporting responsibilities. An Audit and Finance Committee is appointed by the Board. The Audit and Finance Committee reviews the financial statements, adequacy of internal controls, audit process and financial reporting with management and with the external auditors. The Audit and Finance Committee has reviewed these statements prior to recommending approval by the Board of Directors. The Board of Directors has reviewed and approved the financial statements.

Independent Auditors

Grant Thornton has performed an independent audit of the financial statements of Innovate BC. The Auditor's Report, as attached, outlines the scope of this independent audit and expresses an opinion on the financial statements of Innovate BC.



Tomica Divic
Interim President and CEO



Jennie Choboter
Secretary & CFO

Vancouver, British Columbia
May 18, 2023

Independent Auditor's Report

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To the Board of Directors of **Innovate BC**

To the Ministry of Jobs, Economic Development and Innovation ("JEDI")

Opinion

We have audited the financial statements of Innovate BC, which comprise the statement of financial position as at March 31, 2023, and the statements of operations and accumulated operating surplus, changes in net financial assets, changes in net remeasurement gains and losses 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 Innovate BC as at March 31, 2023, and its results of operations, its changes in its net financial assets, net remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

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 Innovate BC 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 public sector accounting standards, 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 Innovate BC's ability to continue as a going concern, disclosing, as applicable, matters related to a going concern and using the going concern basis of accounting unless management either intends to liquidate Innovate BC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Innovate BC'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 Innovate BC'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 Innovate BC's '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 Innovate BC 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

Vancouver, Canada
May 18, 2023

Chartered Professional Accountants

Innovate BC

Statement of Financial Position

March 31

2023

2022

Financial assets

Cash and cash equivalents	\$ 6,256,698	\$ 18,058,651
Investments (Note 3)	7,471,216	2,165,075
Receivables		
Accounts and accrued interest receivable	13,821	14,418
Accounts receivable from Federal Government	814,828	163,707
	<u>14,556,563</u>	<u>20,401,851</u>

Liabilities

Accounts payable and accrued liabilities	2,259,116	7,459,596
Deferred program revenues (Note 6)	1,595,214	2,421,714
Deferred revenue from NRAS endowment (Note 7)	3,780,538	3,624,189
	<u>7,634,868</u>	<u>13,505,499</u>

Net financial assets

6,921,695 6,896,352

Non-financial assets

Restricted - NRAS endowment investments (Note 7)	48,350,189	48,879,097
Tangible capital assets (Note 4)	138,020	142,151
Prepaid expenses	80,020	79,243
	<u>48,568,229</u>	<u>49,100,491</u>

Accumulated surplus

55,489,924 55,996,843

Accumulated surplus is comprised of:

Accumulated operating surplus	\$ 57,139,735	\$ 57,117,746
Accumulated remeasurement losses	<u>(1,649,811)</u>	<u>(1,120,903)</u>
	<u>\$ 55,489,924</u>	<u>\$ 55,996,843</u>

Commitments and contingencies (Note 8)
Contractual obligations (Note 9)

On behalf of the Board of Directors

 Director

 Director

Innovate BC**Statement of Operations and Accumulated Operating Surplus**

Year ended March 31	Budget 2023	2023	2022
Revenue			
Grants from the Province of British Columbia (Note 12)	\$ 6,090,000	\$ 11,208,000	\$ 20,018,939
Program revenue	810,000	2,441,178	579,184
NRAS endowment (Note 7)	1,500,000	1,435,923	2,163,440
Grants from the Federal Government	-	1,435,447	6,087,236
Interest	77,000	468,235	142,764
Other	55,000	76,378	66,027
	<u>8,532,000</u>	<u>17,065,161</u>	<u>29,057,590</u>
Expenses (Note 13)			
Programs and initiatives	3,539,000	13,171,906	25,188,781
NRAS endowment funds	1,400,000	1,435,923	2,163,440
Operational and administrative expenses	3,593,000	2,435,343	1,684,496
	<u>8,532,000</u>	<u>17,043,172</u>	<u>29,036,717</u>
Annual surplus	-	21,989	20,873
Accumulated surplus, beginning of year	<u>57,117,746</u>	<u>57,117,746</u>	<u>57,096,873</u>
Accumulated surplus, end of year	<u>\$ 57,117,746</u>	<u>\$ 57,139,735</u>	<u>\$ 57,117,746</u>

Innovate BC**Statement of Remeasurement Gains and Losses**

Year ended March 31	2023	2022
Accumulated remeasurement gains, beginning of year	\$ (1,120,903)	\$ -
Net remeasurement losses for the year	<u>(528,908)</u>	<u>(1,120,903)</u>
Accumulated remeasurement losses, end of year	<u>\$ (1,649,811)</u>	<u>\$ (1,120,903)</u>

Innovate BC**Statement of Changes in Net Financial Assets**

Year ended March 31	Budget 2023	2023	2022
Annual surplus	\$ -	\$ 21,989	\$ 20,873
Additions to tangible capital assets	(50,000)	(42,160)	(33,642)
Amortization of tangible capital assets	-	45,771	44,340
Disposition of tangible capital assets	-	6,827	7,466
Accumulated amortization of disposition	-	(6,307)	(7,267)
	<u>(50,000)</u>	<u>26,120</u>	<u>31,770</u>
Acquisition of prepaid expenses	-	(61,474)	(97,316)
Use of prepaid expenses	-	60,697	162,230
	<u>-</u>	<u>(777)</u>	<u>64,914</u>
Change in net financial assets	(50,000)	25,343	96,684
Net financial assets, beginning of year	<u>6,896,352</u>	<u>6,896,352</u>	<u>6,799,668</u>
Net financial assets, end of year	<u>\$ 6,846,352</u>	<u>\$ 6,921,695</u>	<u>\$ 6,896,352</u>

Innovate BC

Statement of Cash Flows

Year ended March 31

2023

2022

Cash derived from (applied to)

Operating activities

Operating surplus	\$	21,989	\$	20,873
Adjustments for items not affecting cash				
Amortization of tangible capital assets		45,771		44,340
Loss on disposal of tangible capital assets		520		199

	68,280	65,412
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Changes in non-cash working capital items

Accounts receivable	(650,524)	3,563,722
Prepaid expenses	(777)	64,914
Accounts payable and accrued liabilities	(5,200,480)	6,881,411
Deferred program revenues	(826,500)	498,145
Deferred revenue from NRAS endowment	156,349	(929,856)

	(6,453,652)	10,143,748
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Financing

Purchase of tangible capital assets	(42,160)	(33,642)
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Investments:

Purchase of investments	(6,365,786)	(22,055,660)
Proceeds on maturity of investments	1,059,645	26,910,408

	(5,306,141)	4,854,748
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Net (decrease) increase in cash	(11,801,953)	14,964,854
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Cash and cash equivalents, beginning of year	18,058,651	3,093,797
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Cash and cash equivalents, end of year	\$ 6,256,698	\$ 18,058,651
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Cash and cash equivalents

Unrestricted	\$ 2,767,016	\$ 13,142,572
Restricted - deferred programs (Note 6)	1,595,214	2,421,714
Restricted - NRAS endowment (Note 7)	1,894,468	2,494,365

	\$ 6,256,698	\$ 18,058,651
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Innovate BC

Notes to the Financial Statements

March 31, 2023

1. Nature of operations

Innovate BC was established on March 15, 2018, by an amendment of the British Columbia Innovation Council Act to the Innovate BC Act (the "Act"). Prior to March 15, 2019, Innovate BC was known as British Columbia Innovation Council (the "Council"). The Council was established in 2006 by an amendment of the Innovation and Science Council Act to the British Columbia Council Act.

Innovate BC is governed by a Board of Directors, appointed by the provincial government of British Columbia (the "Province"). Innovate BC is exempt from the payment of income taxes under Section 149 of the Income Tax Act.

Under Section 13 of the Act, the directors, officers, and employees of Innovate BC have certain immunities in the exercise of their duties carried out in the connection with Innovate BC.

Innovate BC helps foster innovation in B.C. so that British Columbians in all regions of the province can benefit from a thriving, sustainable and inclusive innovation economy. A Crown Agency of British Columbia, Innovate BC funds and delivers programs that support the growth of the B.C. economy by helping companies start and scale, train talent that meets labour market needs, and encourage technology development, commercialization and adoption.

2. Summary of significant accounting policies

Basis of accounting

These financial statements have been prepared in accordance with Canadian public sector accounting standards ("PSAS") established by the Canadian Public Sector Accounting Board.

Cash and cash equivalents

Cash and cash equivalents include all balances held at banks and investments with a term to maturity of 90 days or less at the date of acquisition.

Revenue recognition

Unrestricted contributions are recorded as revenue when received or receivable, if the amounts can be estimated and collection is reasonably assured. Other unrestricted revenue, including sales of services, are reported as revenue at the time the services are provided, or the goods delivered.

Investment income on unrestricted assets is recognized as revenue when it is earned. Investment income that is subject to external restrictions is deferred and recognized as revenue in the year in which the related expense is incurred.

Transfers from governments with restrictions are deferred and recognized as revenue when they are spent in accordance with the stipulations in the related agreements. Transfers from governments without restrictions are recognized as revenue when received or receivable if the amounts can be reasonably estimated and collection is reasonably assured.

Endowment contributions are recognized as revenue when received. Investment income earned from restricted cash and investments related to the endowment funds are deferred and recognized as revenue when they are spent or disbursed in accordance with the restrictions of the endowment.

Innovate BC

Notes to the Financial Statements

March 31, 2023

2. Summary of significant accounting policies (continued)

Revenue recognition (continued)

Contributions externally restricted for non-capital specific purposes are recorded as deferred revenue and recognized as revenue in the year in which the stipulations are met.

Budget figures

The budget figures presented in these financial statements are based on the fiscal year 2023 operating budget, approved by the Board of Directors on January 26, 2022.

Financial instruments

Financial instruments are classified into two categories: fair value or amortized cost.

Investments in fixed income securities, which include investments with original terms to maturity of greater than 90 days, are recorded at amortized cost plus accrued interest, which approximates market value. Income on these investments is recognized in the Statement of Operations and Accumulated Surplus over the period of time the investments are held, except for those that are restricted in use. The income from investments that are restricted in use are included within deferred revenue and recognized in the Statement of Operations and Accumulated Surplus when restrictions are satisfied.

The restricted NRAS endowment investments portfolio held with British Columbia Investment Management Corporation, which includes investments in various equity funds, is recorded at market value.

Investments in privately-held corporations are recorded at a nominal market value.

Sales and purchases of investments are recorded on the trade date. Transaction costs related to the acquisition of investments are included in the cost of the related investments.

Other financial instruments such as cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities, are recorded at amortized cost, which approximate their fair value due to their short-term maturities.

Tangible capital assets

Tangible capital assets are initially recorded at cost which includes amounts that are directly attributed to acquisition, construction, development, or betterment of the asset. The historical cost, less residual value, of the tangible capital assets is amortized commencing at the time the asset is available for use based on the methods and rates as shown in the schedule below:

Furniture, fixtures and equipment	20% declining balance
Computer hardware and software	33% declining balance
Leasehold improvements	Straight line over the lesser of the term of the lease and the useful life of the asset

When events or circumstances indicate that a tangible capital asset no longer has any long-term service potential, the net carrying amount is written down to the residual value of the asset.

Innovate BC

Notes to the Financial Statements

March 31, 2023

2. Summary of significant accounting policies (continued)

Prepaid expenses

Prepaid expenses are recorded at cost and amortized over the period where the benefits are received.

Employee future benefits

Innovate BC accrues employee vacation entitlements, included in accounts payable and accrued liabilities. Innovate BC is a member of the Public Service Pension Plan (Note 11). Defined contribution plan accounting is applied to the multi-employer defined benefit plan and, accordingly, contributions are expensed when paid or payable.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The significant areas requiring the use of management estimates include the determination of useful lives of tangible capital assets for amortization and the accrual of liabilities. When actual results differ from the estimates and assumptions, the impact will be recorded in future periods when the difference becomes known.

3. Investments

Innovate BC's investments are invested through Vancouver City Savings Credit Union (Vancity), RBC Dominion Securities Inc. (RBCD) and British Columbia Investment Management Corporation (BCI).

Investments include the following:

	<u>2023</u>	<u>2022</u>
Unrestricted	\$ 5,585,146	\$ 1,035,251
Restricted - NRAS endowment	<u>1,886,070</u>	<u>1,129,824</u>
	<u>\$ 7,471,216</u>	<u>\$ 2,165,075</u>

Included in unrestricted investments are shares of previous British Columbia Advanced Systems Foundation ("ASI") program participant private corporations received in exchange for all or a portion of loan or royalty interests. As at March 31, 2023, Innovate BC has assessed these shares of privately-held corporations to have nominal market value of \$1 each for each company shareholding. The estimated market value of the long-term investments as at March 31, 2023 is \$5 (2022 - \$5).

Innovate BC

Notes to the Financial Statements

March 31, 2023

4. Tangible capital assets

Cost	Balance, March 31, 2022	Additions	Disposals	Balance, March 31, 2023
Furniture, fixtures and equipment	\$ 275,030	\$ 27,933	\$ -	\$ 302,963
Computer hardware and software	432,935	14,227	6,827	440,335
Leasehold improvements	169,859	-	-	169,859
	<u>\$ 877,824</u>	<u>\$ 42,160</u>	<u>\$ 6,827</u>	<u>\$ 913,157</u>
Accumulated Amortization	Balance, March 31, 2022	Amortization	Disposals	Balance, March 31, 2023
Furniture, fixtures and equipment	\$ 215,318	\$ 14,817	\$ -	\$ 230,135
Computer hardware and software	395,107	15,542	6,307	404,342
Leasehold improvements	125,248	15,412	-	140,660
	<u>\$ 735,673</u>	<u>\$ 45,771</u>	<u>\$ 6,307</u>	<u>\$ 775,137</u>
Net book value	2022			2023
Furniture, fixtures and equipment	\$ 59,712			\$ 72,828
Computer hardware and software	37,828			35,993
Leasehold improvements	44,611			29,199
	<u>\$ 142,151</u>			<u>\$ 138,020</u>

5. Accumulated surplus

Accumulated surplus is comprised of the following:

	2023	2022
Invested in tangible capital assets	\$ 138,020	\$ 142,151
NRAS endowment	50,000,000	50,000,000
Program funds under management	-	-
Remeasurement loss	(1,649,811)	(1,120,903)
Unrestricted	7,001,715	6,975,595
	<u>\$ 55,489,924</u>	<u>\$ 55,996,843</u>

Innovate BC

Notes to the Financial Statements

March 31, 2023

6. Deferred program revenues

	Balance, March 31, 2022	Funds received	Funds expended	Balance, March 31, 2023
Agriculture Science and Innovation	\$ 176,069	\$ -	\$ (176,069)	\$ -
LEEF Student Program	918,461	11,678	(930,139)	-
Innovator Skills Initiative	1,071,061	-	(1,071,061)	-
Integrated Marketplace	-	1,603,000	(7,786)	1,595,214
#BCTECH Summit	256,123	-	(256,123)	-
	<u>\$ 2,421,714</u>	<u>\$ 1,614,678</u>	<u>\$ (2,441,178)</u>	<u>\$ 1,595,214</u>

Deferred funds are restricted for future program expenses.

7. Natural Resources and Applied Science Research Endowment (NRAS)

In fiscal year 2005/2006, Innovate BC was charged with stewarding an endowment contribution of \$50,000,000 from the Ministry of Economic Development. Investment earnings are restricted for the support of training, research and development in natural resources and applied sciences.

As at March 31, 2023, restricted cash and investments are comprised of the following:

	<u>2023</u>	<u>2022</u>
BCI investments in equity funds	\$ 22,113,725	\$ 22,063,435
RBCD investments in fixed income securities	<u>26,236,464</u>	<u>26,815,662</u>
Permanently restricted NRAS endowment investments	48,350,189	48,879,097
Unspent interest earnings	<u>3,780,538</u>	<u>3,624,189</u>
	<u>\$ 52,130,727</u>	<u>\$ 52,503,286</u>

Deferred revenue from the NRAS endowment balance comprises the following:

	<u>2023</u>	<u>2022</u>
Accumulated interest, beginning of year	\$ 3,624,189	\$ 4,554,045
Interest earned net of fees	1,581,523	1,233,584
Funds returned	10,749	-
Awards and administration fees	<u>(1,435,923)</u>	<u>(2,163,440)</u>
Accumulated interest, end of year	<u>\$ 3,780,538</u>	<u>\$ 3,624,189</u>

Unspent interest includes \$1,827,350 (2022 - \$3,183,500) which is committed for future payments of contracted awards (Note 9). During the year ended March 31, 2023, Innovate BC paid Ignite Awards totaling \$1,256,150 (2022 - \$1,994,525) to research projects in natural resources and applied sciences. There were no new awards in the year ended March 31, 2023.

Innovate BC

Notes to the Financial Statements

March 31, 2023

8. Commitments and contingencies

(a) Operating leases

Innovate BC has entered into operating leases for their premises and certain office equipment. Total estimated lease payments up to the end of the lease terms are as follows:

2024	\$	392,959
2025		327,729
2026		<u>1,569</u>
	\$	<u>722,257</u>

(b) Contingencies

From time to time, Innovate BC is subject to certain legal proceedings and claims which arise in the ordinary course of business. The outcome of such claims is undeterminable at this time and accordingly no provision has been made for these claims.

9. Contractual obligations

Innovate BC has entered into a number of project grant contracts as at March 31, 2023 to provide future funding of research projects to be completed subsequent to year-end. These contractual obligations are funded in installments and payments are due based on the satisfaction of conditions included in the contracts. As such, no liability has been accrued in the financial statements as Innovate BC is not liable for payments until these conditions have been met.

The contractual obligations of Innovate BC are as follows:

	<u>2023</u>	<u>2022</u>
Ignite awards	\$ 1,827,350	\$ 3,183,500
Venture Acceleration Program	661,250	1,230,000
B.C. Fast Pilot	<u>-</u>	<u>25,000</u>
	<u>\$ 2,488,600</u>	<u>\$ 4,438,500</u>

Innovate BC

Notes to the Financial Statements

March 31, 2023

10. Contractual rights

Innovate BC has entered into program and lease contracts with the Province of British Columbia and third parties, and are entitled to receive payments to the end of the contract terms as follows:

2024	\$	4,397,286
2025		<u>12,996,949</u>
	\$	<u>17,394,235</u>

11. Employee future benefits

Innovate BC and its employees contribute to the Public Service Pension Plan (the "Plan") in accordance with the Public Sector Pension Plans Act (the "Act"). The Public Service Pension Board of Trustees, representing Plan members and employers, is responsible for administering the Plan, including investment of assets and administration of benefits. As the Plan is a multi-employer, defined benefit plan, Innovate BC accounts for its payments on the basis of a defined contribution plan. The Plan covers approximately 68,000 active employees.

Every three years, an actuarial valuation is performed to assess the financial position of the Plan and adequacy of funding. The actuary determines an appropriate combined employer and member contribution rate to fund the Plan. The actuary's calculated contribution rate is based on the entry-age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the Plan. This rate is then adjusted to the extent there is amortization of any funding deficit.

The latest actuarial valuation as at March 31, 2020, indicated a funding surplus of \$2,667,000,000 for basic pension benefits on a going concern basis. The next valuation will be as at March 31, 2023, with results available in early 2024.

During the year ended March 31, 2023, Innovate BC paid and expensed \$147,229 (2022 - \$129,021) for contributions to the Plan.

12. Related party transactions

Innovate BC is related through common ownership to all Province of British Columbia ministries, agencies, crown corporations, school districts, health authorities, hospital societies, universities and colleges that are included in the provincial government reporting entity. Transactions with these entities, unless disclosed otherwise, are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

During the year ended March 31, 2023, Innovate BC received \$12,791,000 (2022 - \$21,090,000) in provincial funding from the Ministry of Jobs, Economic Development and Innovation.

Innovate BC

Notes to the Financial Statements

March 31, 2023

13. Expenses by object

The following is a summary of expenses by object:

	<u>2023</u>	<u>2022</u>
Program expenses and disbursements	\$ 13,720,252	\$ 26,154,288
Salaries and benefits	2,231,442	1,946,621
Office expenses and other costs	504,470	384,850
Rent	372,440	362,482
Contracted services	168,797	144,136
Amortization	45,771	44,340
Total expense	<u>\$ 17,043,172</u>	<u>\$ 29,036,717</u>

14. Financial risk management

Credit risk

Credit risk refers to the risk that a counterparty may default on its contractual obligation resulting in a financial loss. For cash and accounts receivable, Innovate BC's credit risk is limited to the carrying value on the statement of financial position. Management does not believe that Innovate BC is subject to any significant concentration of credit risk. There have been no changes to the risk exposure from the prior year.

Liquidity risk

Liquidity risk is the risk that Innovate BC is not able to meet its financial obligations on a timely basis or at a reasonable cost. Innovate BC has established budget processes and regularly monitors cash flows to ensure the necessary funds are on hand to fulfill upcoming obligations. There have been no changes to the risk exposure from the prior year.

Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect Innovate BC's income. Innovate BC utilizes market risk management to control market risk exposures to within acceptable parameters while optimizing the return on risk. Innovate BC is exposed to market risk on its investments with BCI.

Innovate BC

Notes to the Financial Statements

March 31, 2023

15. Fair value of financial instruments

Canadian public sector accounting standards define the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. The financial instruments measured at fair value held within each investment are classified according to a hierarchy which includes three levels, reflecting the reliability of the inputs involved in the fair value determination.

The different levels are defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Innovate BC's investments are all considered to be level 1 financial instruments for which the fair value is determined based on quoted prices in active markets. Changes in fair valuation methods or in the availability of market observable inputs may result in a transfer between levels. During the year there was no transfer of securities between the different levels.

Innovate BC's investments are invested mainly through RBC Dominion Securities Inc. (RBCD) and British Columbia Investment Management Corporation (BCI).
