

Financial Statements of

**PROTEIN INDUSTRIES
CANADA INC.**

And Independent Auditor's Report thereon

Year ended March 31, 2023



KPMG LLP
Hill Centre Tower II
1881 Scarth Street, 20th Floor
Regina Saskatchewan S4P 4K9
Canada
Telephone (306) 791-1200
Fax (306) 757-4703

INDEPENDENT AUDITOR'S REPORT

To the Members of Protein Industries Canada Inc.

Opinion

We have audited the financial statements of Protein Industries Canada Inc. (the Entity), which comprise:

- the statement of financial position as at March 31, 2023
- the statement of operations and net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2023, 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 auditor's report.

We are independent of the Entity 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.

Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditor's report thereon, included in the annual report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indicators that the other information appears to be materially misstated.



We obtained the information, other than the financial statements and the auditor's report thereon, included in the annual report as at the date of this auditor's report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



Page 3

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity's 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.
- 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.

A handwritten signature in black ink that reads 'KPMG LLP' in a cursive, slanted font. A horizontal line is drawn underneath the signature.

Chartered Professional Accountants

Regina, Canada
July 28, 2023

PROTEIN INDUSTRIES CANADA INC.

Statement of Financial Position

Year ended March 31, 2023, with comparative information for 2022

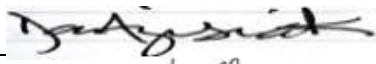
	2023	2022
Assets		
Current assets:		
Cash	\$ 20,961,965	\$ 30,851,077
Accounts receivable and accrued receivables (note 3)	2,190,875	1,815,610
Prepaid expenses	244,053	302,659
ISED Canada funding receivable (note 4)	4,420,598	-
Project advances receivable (note 5)	34,691	5,353,783
	27,852,182	38,323,129
Property, plant and equipment (note 6)	25,987	16,834
Intangible assets (note 7)	7,638	14,938
	\$ 27,885,807	\$ 38,354,901


Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities (note 8)	\$ 22,942,002	\$ 8,917,246
Deferred contributions (note 9)	56,181	27,357,076
	22,998,183	36,274,322
Net assets	4,887,624	2,080,579
Commitments (note 10)		
	\$ 27,885,807	\$ 38,354,901

See accompanying notes to financial statements.

On behalf of the Board:

 _____ Director - Dave Dzisiak - Chair, Audit and Finance Committee

 _____ Director - Frank Hart - Chair of the Board of Directors

PROTEIN INDUSTRIES CANADA INC.

Statement of Operations and Net Assets

Year ended March 31, 2023, with comparative information for 2022

	2023	2022
Revenue:		
Innovation, Science and Economic Development Canada	\$ 66,487,929	\$ 51,143,837
Project management fees	4,201,416	3,271,822
Interest income	664,561	82,031
Membership and registration fees	92,857	101,428
Other revenue	29,782	6,547
	71,476,545	54,605,665
Expenses:		
Technology program expenses	50,192,399	44,926,465
Capacity building program expenses	12,322,745	3,075,245
Salaries and benefits	3,666,631	3,388,185
Office and administration	1,686,936	918,135
Events and community engagement	497,566	406,794
Consulting and professional fees	285,229	225,697
Amortization	17,994	17,489
	68,669,500	52,958,010
Excess of revenue over expenses	2,807,045	1,647,655
Net assets, beginning of period	2,080,579	432,924
Net assets, end of period	\$ 4,887,624	\$ 2,080,579

See accompanying notes to financial statement

PROTEIN INDUSTRIES CANADA INC.

Statement of Cash Flows

Year ended March 31, 2023, with comparative information for 2022

	2023	2022
Cash provided by (used in):		
Operations:		
Excess of revenue over expenses	\$ 2,807,045	\$ 1,647,655
Items not involving cash:		
Amortization of property, plant and equipment	10,694	10,189
Amortization of intangibles	7,300	7,300
Changes in non-cash operating working capital:		
ISED Canada funding receivable	(4,420,598)	7,220,955
Accounts receivable and accrued receivables	(375,265)	(26,923)
Prepaid expenses	58,606	(181,235)
Project advances receivable	5,319,092	(2,510,214)
Accounts payable and accrued liabilities	14,024,756	679,689
Deferred contributions	(27,300,895)	15,754,351
	(9,869,265)	22,601,767
Investing:		
Purchase of property, plant and equipment	(19,847)	(12,865)
Proceeds from investments	-	10,100
	(19,847)	(2,765)
(Decrease) Increase in cash	(9,889,112)	22,599,002
Cash, beginning of year	30,851,077	8,252,075
Cash, end of year	\$ 20,961,965	\$ 30,851,077

See accompanying notes to financial statements.

PROTEIN INDUSTRIES CANADA INC.

Notes to Financial Statements

Year ended March 31, 2023

Nature of operations:

Protein Industries Canada Inc. (the "Corporation" or "PIC") is incorporated under *The Non-Profit Corporations Act, 1995 (Saskatchewan)*. The primary purpose of the Corporation is to raise funds and apply for funding from the Innovation Superclusters Initiative of Innovation, Science and Economic Development Canada (ISED).

Pursuant to a funding agreement, the Corporation receives significant funding revenue from ISED to finance the development and coordination of the Innovation Superclusters Initiative to accelerate growth in the Canadian agriculture and food processing sectors. As a result, the Corporation is dependent upon the continuance of this funding to maintain operations at their current level.

Payment by the Federal Government of the contributions for all agreements is conditional on there being a legislated appropriation for the fiscal year in which the contribution is due. The Minister's shall have the right to terminate or reduce the contribution in the event that the amount of the appropriation is reduced or denied by Parliament.

Program Streams:

Protein Industries Canada Inc. invests in Technology, Artificial Intelligence (PCAIS), and Capacity Programs. The Technology Program will work with companies to leverage strengths to drive innovation, overcome barriers and explore new opportunities to create more valued-added processing opportunities in Canada. The Artificial Intelligence Program will work with organizations to increase Canadian competitiveness using artificial intelligence to drive innovation. The Capacity Program will focus its investment in priority areas as identified by industry.

1. Basis of presentation:

These financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations outlined in Part III of the CPA Canada Handbook.

2. Significant accounting policies:

The Corporation's significant accounting policies are as follows:

(a) Revenue recognition:

The Corporation follows the deferral method of accounting for contributions. Funding from ISED is restricted to provide funding to eligible recipients for future Technology and Capacity Building programs and the payment of the Corporation's operating and capital expenditures. Restricted contributions for expenses of a future period are recorded as deferred contributions and are recognized in revenue in the year in which the related expenses are incurred. Investment income earned on deferred contributions is recognized in the period in which it is earned. Unrestricted contributions and sponsorships are included in the period received if the amount to be received can be reasonably estimated

PROTEIN INDUSTRIES CANADA INC.

Notes to Financial Statements (continued)

Year ended March 31, 2023

and collection is reasonably assured.

The Corporation signed an amended contribution agreement with ISED Canada on July 28, 2021. The amendment increased the total contribution from \$152,843,759 to \$172,843,759. ISED Canada committed to fund the Corporation for eligible program and project costs over a 5-year period commencing in Fiscal Year 2018/19. Under the terms of the amended agreement, ISED will provide a non-repayable contribution to the Corporation for 75% of eligible internal program costs that do not exceed 15% of \$172,843,759 and 100% of PIC's portion of eligible program costs. The amended contribution agreement total is not to exceed the lesser of \$172,843,759 or 100% of total Industry Matching Funds obtained by the organization over the 5-year period.

On March 28, 2023, the Corporation signed an amended and restated contribution agreement with ISED with funding commencing April 1, 2023. The amendment increased the non-repayable contribution by a further \$123,375,000 of which a maximum of \$16,875,000 is to be used towards internal program costs and \$106,500,000 towards 100% of PIC's portion of eligible program costs. The total is not to exceed the lesser of \$123,375,000 or 100% of total Industry Matching Funds obtained by the organization over the five-year period, ending March 31, 2028.

The amendment increased the total contribution from \$172,843,759 to \$296,218,759 and extended the program to a 10-year period commencing in Fiscal 2018/19 and ending March 31, 2028. The Government of Canada has renamed the Innovation Superclusters Initiative to Canada's Global Innovation Clusters (GIC).

The Minister may provide a further optional contribution of \$26,625,000 towards eligible project costs provided that the Corporation has met certain conditions to the Minister's satisfaction.

The Corporation has been approved for \$30,000,000 of funding within the Pan-Canadian Artificial Intelligence Strategy Commercialization Stream ("PCAIS") to support inclusive innovation to advance the commercialization of artificial intelligence applications in Canada. The PCAIS Contribution Agreement was signed on September 13, 2022. ISED Canada committed to fund the Corporation for eligible program and project costs over a 4-year period commencing in Fiscal Year 2022/23. Under the terms of the agreement, ISED will provide a non-repayable contribution to the Corporation for 75% of eligible internal program costs that do not exceed 10% of \$30,000,000 and 100% of PIC's portion of eligible program costs. The contribution agreement total is not to exceed the lesser of \$30,000,000 or 100% of total Industry Matching Funds obtained by the organization over the 4-year period.

The amount of ISED contributions varies from year to year based on forecasted operating and project spend and amounts may be reallocated to other fiscal years within the program term with the written approval from the Minister of ISED.

PROTEIN INDUSTRIES CANADA INC.

Notes to Financial Statements (continued)

Year ended March 31, 2023

Project management fees of 4% of total eligible project costs that PIC provides reimbursement for within the Technology program. Project management fees are invoiced when PIC and the ultimate recipient sign the project cost declaration.

(b) Financial assets and liabilities:

Financial instruments are recorded at fair value on initial recognition. Subsequently, they are recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Corporation has not elected to carry its financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Corporation determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Corporation expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

PROTEIN INDUSTRIES CANADA INC.

Notes to Financial Statements (continued)

Year ended March 31, 2023

2. Significant accounting policies (continued):

(c) Project advances receivable:

Project advances receivable consist of funding provided to project members in advance of eligible project costs being incurred. Advances are drawn down and recognized as revenue when a claim for eligible project costs is reconciled and approved by PIC. The year-end balance includes accruals for project claims submitted for eligible project costs incurred and not yet reconciled.

(d) Property, plant and equipment:

Property, plant and equipment are stated at cost, less accumulated amortization. Amortization is provided using the straight line method at the following annual rates:

Asset	Rate
Furniture and equipment	20-45%
Leasehold improvements	25%

(e) Intangible assets:

Intangible assets are stated at cost, less accumulated amortization. Amortization is provided using the straight line method with an annual rate of 20%.

(f) Income taxes:

The Corporation is incorporated under *The Non-Profit Corporations Act of Saskatchewan*. Under present legislation, no income taxes are payable on reported income of such corporations.

(g) Use of estimates:

The preparation of the 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 year. Significant items subject to such estimates and assumptions include the valuation of accounts receivable. Actual results could differ from those estimates.

PROTEIN INDUSTRIES CANADA INC.

Notes to Financial Statements (continued)

Year ended March 31, 2023

3. Accounts receivable and accrued receivables:

	2023	2022
Accounts receivable	\$ 887,214	\$ 832,949
Accrued receivable – projects	1,313,570	982,661
Allowance for doubtful accounts	(9,909)	-
	<u>\$ 2,190,875</u>	<u>\$ 1,815,610</u>

4. ISED Canada funding receivable:

The funding receivable relates to funding confirmed by ISED for contracted and completed projects under the Corporation's Technology and Capacity Programs and operating expenditures.

5. Project advance receivables:

	2023	2022
Beginning balance	\$ 5,353,783	\$ 2,843,569
Advances paid	10,685,812	15,681,273
Costs reimbursed during the year	(16,004,904)	(13,171,059)
	<u>\$ 34,691</u>	<u>\$ 5,353,783</u>

6. Property, plant and equipment:

	2023		2022	
	Cost	Accumulated amortization	Net book value	Net book value
Furniture and equipment	\$ 55,660	\$ 29,835	\$ 25,825	\$ 16,349
Leasehold improvements	1,295	1,133	162	485
	<u>\$ 56,955</u>	<u>\$ 30,968</u>	<u>\$ 25,987</u>	<u>\$ 16,834</u>

PROTEIN INDUSTRIES CANADA INC.

Notes to Financial Statements (continued)

Year ended March 31, 2023

7. Intangible assets:

			2023	2022
	Cost	Accumulated amortization	Net book value	Net book value
Website	\$ 36,500	\$ 28,862	\$ 7,638	\$ 14,938

8. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of \$7,344 (2022 - \$19,590).

		2023	2022
Accounts payable	\$	8,200,643	\$ 128,917
Accrued payable – operations		299,837	316,726
Accrued payable – projects		14,441,522	8,471,603
	\$	22,942,002	\$ 8,917,246

PROTEIN INDUSTRIES CANADA INC.

Notes to Financial Statements (continued)

Year ended March 31, 2023

9. Deferred contributions:

Deferred contributions represent ISED funding for program costs, for the purpose of providing funding to eligible recipients for future projects and for the payment of the Corporation's subsequent years' operating expenditures. The amounts are recognized as revenue in the period the related expense is incurred.

The change in the deferred contributions balance for the Global Innovation Program is as follows:

	2023	2022
Beginning balance	\$ 27,357,076	\$ 11,602,725
Funding received	38,787,034	66,898,188
Recognized as revenue during the year	(66,144,110)	(51,143,837)
	\$ -	\$ 27,357,076

The change in the deferred contributions balance for the PCAIS program is as follows:

	2023	2022
Beginning balance	\$ -	-
Funding received	400,000	-
Recognized as revenue during the year	(343,819)	-
	\$ 56,181	\$ -

PROTEIN INDUSTRIES CANADA INC.

Notes to Financial Statements (continued)

Year ended March 31, 2023

10. Commitments:

The Corporation is committed to an office space lease over the next five years as follows:

2024	\$	114,900
2025	\$	120,000
2026	\$	120,000
2027	\$	120,000
2028	\$	120,000

The Corporation invests in projects within the Technology, Capacity and PCAIS program streams. Projects are selected through a competitive process and successful proponents enter into master project agreements (MPA) outlining the terms of the investment. As of March 31, 2023, commitments for funding by programs are as follows:

	Total committed co-investment	Remaining commitment
Technology program	\$ 3,250,226	\$ 3,250,226
Capacity program	\$ 370,000	\$ 370,000
PCAIS program	\$ -	\$ 27,250,000

Effective April 1, 2023, the amended and restated contribution agreement with ISED will result in an additional \$106,500,000 of committed funding with an optional contribution of \$26,250,000. These contributions will be committed and disbursed for Technology and Capacity program streams on or before March 31, 2028.

PROTEIN INDUSTRIES CANADA INC.

Notes to Financial Statements (continued)

Year ended March 31, 2023

11. Financial risks and concentration of risk:

The Corporation, through its financial assets and liabilities, has exposures to the following risks from its use of financial instruments:

a) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Corporation is exposed to credit risk with respect to cash, accounts receivable and accrued receivables and project advances receivable. The carrying amounts of financial assets on the statement of financial position represent the Corporation's maximum credit exposure as at March 31, 2023.

The Corporation's accounts receivable and accrued receivables and project advances receivable amounts disclosed in the statement of financial position are net of allowance for doubtful accounts \$9,909 (2022 - nil), estimated by management of the Corporation based on previous experience and its assessment of the current economic environment. The Corporation does not have significant exposure to any individual customer and has not incurred any significant bad debts during the year. The credit risk on cash is limited because the counterparties are chartered banks with high credit ratings assigned by national credit-rating agencies. There has been no change to the risk exposure since the prior period.

b) Liquidity risk:

Liquidity risk is the risk that the Corporation will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Corporation manages its liquidity risk by monitoring its operating requirements. The Corporation prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. There has been no change to the risk exposure since the prior period.