

**Palette Skills Inc.**  
**Financial Statements**  
For the year ended March 31, 2024

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## Independent Auditor's Report

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To the Board of Directors of Palette Skills Inc.

### Opinion

We have audited the financial statements of Palette Skills Inc. (the "Organization"), which comprise the statement of financial position as at March 31, 2024, and the statements of operations and changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at March 31, 2024, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

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

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

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



### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*BDO Canada LLP*

Chartered Professional Accountants, Licensed Public Accountants  
Oakville, Ontario  
July 25, 2024

**Palette Skills Inc.**  
**Statement of Financial Position**

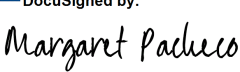
<b>March 31</b>	<b>2024</b>	<b>2023</b>
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 13,209,154	\$ 1,771,579
Accounts receivable	1,185	151,288
Government remittance receivable	690,204	175,516
Prepaid expenses	1,507,384	193,828
	<b>\$ 15,407,927</b>	<b>\$ 2,292,211</b>

**Liabilities and Net Assets**

<b>Current</b>		
Accounts payable and accrued liabilities	\$ 1,064,938	\$ 1,227,888
Service delivery partner liability (Note 3)	10,234,797	-
Deferred revenue (Note 4)	4,078,378	602,361
CEBA loan (Note 5)	-	30,000
Loan payable (Note 6)	-	249,983
	<b>15,378,113</b>	<b>2,110,232</b>
<b>Net assets</b>		
Unrestricted	29,814	181,979
	<b>\$ 15,407,927</b>	<b>\$ 2,292,211</b>

On behalf of the Board:

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 \_\_\_\_\_ Director  
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 \_\_\_\_\_ Director  
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**Palette Skills Inc.**  
**Statement of Operations and Changes in Net Assets**

<b>For the year ended March 31</b>	<b>2024</b>	<b>2023</b>
<b>Revenue</b>		
Government funding	\$ 34,178,142	\$ 5,663,573
Non-government funding	215,025	272,286
Program fees	75,450	90,296
Other income	209,676	8,231
Interest income	184,870	14,348
	<b>34,863,163</b>	<b>6,048,734</b>
<b>Expenses</b>		
Program delivery	26,203,931	1,603,180
Salaries and benefits	6,568,492	3,053,178
Professional fees	1,337,887	687,618
Office and administration	392,204	310,060
Advertising and promotion	307,859	239,951
Travel	199,294	56,483
Insurance	5,661	3,160
Bad debts	-	1,500
	<b>35,015,328</b>	<b>5,955,130</b>
<b>Excess (deficiency) of revenue over expenses</b>	<b>(152,165)</b>	<b>93,604</b>
<b>Net assets, beginning of year</b>	<b>181,979</b>	<b>88,375</b>
<b>Net assets, end of year</b>	<b>\$ 29,814</b>	<b>\$ 181,979</b>

The accompanying notes are an integral part of these financial statements.

**Palette Skills Inc.**  
**Statement of Cash Flows**

<b>For the year ended March 31</b>	<b>2024</b>	<b>2023</b>
<b>Cash flows from operating activities</b>		
Excess (deficiency) of revenue over expenses	\$ (152,165)	\$ 93,604
Changes in non-cash working capital balances		
Accounts receivable	150,103	(141,318)
Government remittances receivable	(514,688)	(150,213)
Prepaid expenses	(1,313,556)	35,714
Accounts payable and accrued liabilities	(162,950)	1,122,557
Deferred revenue	3,476,017	(179,895)
Service delivery partner liability	10,234,797	-
	<b>11,717,558</b>	<b>780,449</b>
<b>Cash flows from financing activities</b>		
Proceeds from loan payable, net	-	249,983
Repayment of CEBA loan	(30,000)	-
Repayment of loan payable	(249,983)	-
	<b>(279,983)</b>	<b>249,983</b>
<b>Increase in cash during the year</b>	<b>11,437,575</b>	<b>1,030,432</b>
<b>Cash, beginning of year</b>	<b>1,771,579</b>	<b>741,147</b>
<b>Cash, end of year</b>	<b>\$ 13,209,154</b>	<b>\$ 1,771,579</b>

The accompanying notes are an integral part of these financial statements.

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**Palette Skills Inc.**  
**Notes to Financial Statements**

**March 31, 2024**

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**1. Purpose of the Organization**

Palette Skills Inc. (the "Organization") was incorporated without share capital on September 13, 2017.

The purpose of the Organization is to identify workers whose jobs or industries are being disrupted and help transition them into high demand careers in the innovation economy through rapid and intensive upskill training.

Pursuant to the Income Tax Act (Canada), the Organization is classified as a not-for-profit organization and therefore, is not subject to income tax.

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**2. Significant Accounting Policies**

**Basis of Accounting**

These financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations.

**Revenue Recognition**

The Organization follows the deferral method of accounting for contributions, including government and non-government funding. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred.

Program fees and interest income are recognized when earned.

**Financial Instruments**

Financial instruments are recorded at fair value when acquired or issued. Subsequently, all financial instruments are reported at cost or amortized cost less impairment, if applicable. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired. Transaction costs on the acquisition, sale or issue of financial instruments are expensed for those items remeasured at fair value at each statement of financial position date and charged to the financial instrument for those measured at amortized cost.

## Palette Skills Inc.

### Notes to Financial Statements

**March 31, 2024**

#### 2. Significant Accounting Policies (Continued)

##### Use of Estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations 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 statement of financial position date and the reported amounts of revenues and expenditures during the year. Actual results could differ from those estimates.

#### 3. Service Delivery Partner Liability

As part of the Contribution Agreement referred to in Note 4, the Organization is a lead recipient for the Upskilling for Industry Initiative and has entered into Ultimate Recipient Agreement's with underlying Service Delivery Partners ("Ultimate Recipients") to assist in delivering on the project. As at year end, the Organization has an amount owing of \$10,234,797 (2023 - \$Nil) to a number of Ultimate Recipient's based on eligible project costs incurred through March 31, 2024.

#### 4. Deferred Revenue

	<u>2024</u>	<u>2023</u>
Balance, beginning of the year	\$ 602,361	\$ 782,256
Received	38,074,184	5,606,459
Recognized as revenue	<u>(34,598,167)</u>	<u>(5,786,354)</u>
Balance, end of year	<u>\$ 4,078,378</u>	<u>\$ 602,361</u>

On March 14, 2023, the Organization signed a Contribution Agreement ("the Agreement") to receive government funding over a three year period. As a part of the Agreement, the Organization intends to receive, and recognize as revenue, funds received based on spending those funds in accordance with the Agreement on eligible expenditures. For the fiscal year ended March 31, 2024, the Organization received \$37,867,884 of the maximum available contribution of \$77,984,071. The terms of the Agreement state that in the event that all of, or a portion of, the received funds are not spent on eligible expenditures within the fiscal year they are received, the Organization is required to return the unspent portion of funds within 45 days after the end of the fiscal year. Subsequent to the Agreement being signed, the Organization has been approved to defer the excess funds until the completion of the Upskilling for Industry Initiative Program at which point the unspent funds are required to be returned at the project completion date of March 31, 2025.



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**Palette Skills Inc.**  
**Notes to Financial Statements**

**March 31, 2024**

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**5. CEBA Loan**

	<b>2024</b>	<b>2023</b>
Canada Emergency Benefit Account ("CEBA") loan	<b>\$ -</b>	<b>\$ 30,000</b>

The Organization received the \$40,000 CEBA loan to finance expenses during COVID-19. The loan was non-interest bearing with no scheduled payments until December 31, 2023. If \$30,000 of the loan had been repaid by that date, the remaining \$10,000 would be forgiven. The loan was fully repaid on December 7, 2023 and \$10,000 was forgiven.

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**6. Loan Payable**

The loan payable was unsecured and beared interest at 6.5% per annum calculated monthly, and was repayable on the date that is the earlier of 12 months after the date of the Initial Advance and the date on which the Borrower receives final payment from the Contracts Financed. The loan was fully repaid on August 24, 2023.

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**7. Financial Instrument Risks**

**Credit Risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Organization is exposed to credit risk arising from its accounts receivable and government remittance receivable. This risk has not changed from the prior year.

**Liquidity Risk**

Liquidity risk is the risk that the Organization encounters difficulty in meeting its obligations associated with its financial liabilities. Liquidity risk includes the risk that, as a result of operational liquidity requirements, the Organization will not have sufficient funds to settle a transaction on the due date; will be forced to sell financial assets at a value which is less than what they are worth; or may be unable to settle or recover a financial asset. Liquidity risk arises from the Organization's accounts payable and accrued liabilities. This risk has not changed from the prior year.