



2015-16 Annual Report

Alberta 

Alberta Innovates-Technology Futures

2015-16 Annual Report

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1 Executive Summary

Alberta Innovates-Technology Futures (AITF) is an integral part of Alberta's innovation and entrepreneurial ecosystem. Through the innovation support programs delivered on behalf of the Government of Alberta and the Applied Research services to industry and government, AITF supports entrepreneurs, industry, academia, and the Government of Alberta to accelerate the development, adoption, and eventual commercialization of Alberta's most promising new technologies and innovations.

AITF's business model aligns sector expertise with business services at each stage along the technology innovation and adoption curve. The model is closely aligned with industry and government needs and drives toward five key strategic objectives: Engaging our Stakeholders, Focused Innovation, Contributing to an Effective Innovation System, Operational Excellence, and a High Performance Culture. This positioning supports AITF's effectiveness, allows for enhanced collaboration between our operational areas, focuses our investments on key challenges in each of our industry based sectors, and improves the stewardship and governance of the innovation investment portfolio managed on the behalf of the Government of Alberta.

We recognize the importance of remaining agile and responsive to changing market dynamics, emerging sectors, and technological evolution to capitalize on opportunities within Alberta and globally. Over the past year the Corporation has continued to challenge the status quo and evolve its approach to doing business. New initiatives include the development of a new technology commercialization scorecard, expansion of our global programs for small and medium sized enterprises (SME), enhanced internal processes and systems which will allow us to provide more responsive services to our clients, and collaboration on the Draft 2030 Innovation Targets outlined within the Alberta Research and SME Innovation Framework. to bring a strategic and cohesive focus to the province-wide innovation system.

The development of the technology commercialization scorecard was the first step in AITF's goal to enhance transparency and reporting on outcomes. Innovation has traditionally been a challenging area to demonstrate objective and quantitative value, and each jurisdiction's unique approach and mix of programs make benchmarking difficult. This scorecard will better showcase the outcomes AITF adds to Alberta's innovation system through objective measures that identify trends over time and demonstrate results for the Province and its taxpayers. In addition the data set used to develop the scorecard will facilitate improved decision making, ensuring funding is given to those areas of the business that are achieving the most significant outcomes and those with the greatest client need.

The decline in Alberta's economic outlook underlines the importance of the work AITF conducts on behalf of the Province. The commercialization of technology and application of new knowledge is essential to both the diversification of the Alberta economy and continued economic prosperity from the oil and gas sector where cost-effective methods of production will be center stage.

Like the rest of Alberta, the dramatic collapse in global oil prices due to geopolitical forces and expanded oil supply through new technology has had a significant impact on all aspects of AITF's business. Our funding from the Government of Alberta has been reduced due to the current fiscal restraint required of all provincial agencies. In addition to this reduction, the oil and gas sector's pull back on innovation and research investments and budgetary pressures faced by our government clients is significantly impacting our contract revenue business. While external contract revenue exceeded budget for the fiscal year, this was mainly due to a one-time, unbudgeted contract acquired by AITF's wholly-owned subsidiary, C-FER Technologies Inc. (C-FER) and is not expected to recur in the short term.

Due to the nature of its business, AITF has limited leeway in managing its bottom line aside from expense management. Over the past two fiscal years, AITF has made significant efforts to control salary, wages and benefits costs, which are the single largest expense category. However, many of AITF's services, particularly in Applied Research, are knowledge-based and large-scale cuts to staffing levels would hinder AITF's ability to serve our over 800 forward-looking clients and the provincial innovation system as a whole in the long term. Variable expenses, such as subcontractors, materials and supplies, computer hardware and software, travel, etc. make up less than 10% of AITF's overall cost structure, and management has and will continue to reduce these where possible

AITF's cash balance has increased significantly from the 2014-15 fiscal year, from \$55.8 million to \$71.9 million. Of this balance, \$15.4 million, or 21% is available as working capital. The remaining 79% is either contractually committed or pending commitment for specific programs or initiatives and cannot be used to fund operations. This is consistent with prior years.

Over recent years, AITF has constrained investment in capital assets, which presents a long term challenge for an organization whose clients expect and need access to cutting edge technologies and equipment. The Ministry of Economic Development and Trade (EDT) has budgeted an annual \$3 million for provincial innovation infrastructure capital maintenance and renewal for the next five years. AITF looks forward to managing the Corporation's annual allocated portion of the \$3 million for critical capital investments required to support industry.

The 2016-17 AITF budget has been developed with the expectation that the four Alberta Innovates corporations will come together as one corporation by fall of 2016. The overall budget for the four corporations was reduced by \$45 million, which was shared across the four corporations and AITF's portion of the reduction will be primarily obtained from reductions in program spending within Campus Alberta / Basic Research and Commercialization.

Expectations are that unrestricted government grants, external contract revenue, and revenue from product sales will decline in 2016-17 while restricted provincial grants will increase, resulting in an overall decline in total revenue as compared to 2015-16. Total expenses in 2016-17 are expected to remain consistent with decreases in subcontractor expense, and an increase in grant expense in alignment with the increase to restricted provincial grant revenue.

Outlook for the Future

2016-17 will see significant change for AITF and its sister Alberta Innovates corporations as they are consolidated into a single entity. This is an exciting time for the Alberta Innovates family as this change will enhance collaboration and clarity in service delivery to innovators and entrepreneurs. While the new Alberta Innovates Corporation is expected to maintain the various sectors forming the existing core of the four separate organizations, the consolidated entity will rationalize areas of overlap, reallocate resources to underserved areas within the innovation ecosystem, and ensure that our clients are connected with the right support resources when they are needed.

A single Alberta Innovates will drive research and help accelerate ideas from our critical sectors in energy, environment, food-agriculture, fibre/bio-industrial, health and any other areas determined under the regulations into applied innovations that improve our lives and economy. A single streamlined research and innovation corporation will make it easy for researchers, partners and companies to access and navigate the supports and opportunities available to them. As a small jurisdiction, Alberta must have a disciplined approach to investment based on achieving measurable outcomes. An integrated Alberta Innovates will pool our strengths and resources so that we can increase Alberta's global competitiveness with made in Alberta solutions.

This consolidation takes a long term view of Alberta's innovation system and will help the new Alberta Innovates Corporation to make advancements regardless of current economic realities. AITF is looking forward to continuing to support the government and the industry innovation needs of the Province within the new structure and helping to achieve demonstrable value for money.

2 Message from the Board Chair

Judy Fairburn



The gains made this year by the four Alberta Innovates corporations – Energy and Environment Solutions, Bio Solutions, Health Solutions, and Technology Futures – help lay the foundation for future evolution within Alberta’s research and innovation system, and will be carried forward and further refined as our system continues to mature.

A sampling of the past year’s successes among the four corporations showcases our existing strengths and the potential to build on those strengths through the integrated approach that a single organization will enable – not only with each other but with many partners in the broader research and innovation system.

- Alberta Innovates Technology Futures has begun staged implementation of measuring outcomes generated by the funding support it provides to technology-based entrepreneurs and small business owners. For every dollar AITF invests, business owners raised another \$9.50 from other investors, and grew net revenues by \$4.50. Of the 157 AITF supported companies, 53% exported their products, compared to 10% of similarly sized Canadian companies.
- Alberta Innovates – Health Solutions and Alberta Innovates – Technology Futures, in partnership with Economic Development and Trade, launched a 4 million dollar funding initiative to build, test and validate innovative technologies from local entrepreneurs in real world settings in the province. Under the health portion of the initiative, Alberta Health Services’ Diabetes, Obesity and Nutrition Strategic Clinical Network was funded to test two products in the health system, a bandage to heal diabetic ulcers and a shoe insole to sense foot pressure to prevent diabetic ulcers from forming. Foot ulceration affects 15 to 20% of people with diabetes at some point in their lives and is a leading cause of amputations. Early detection and new treatment promises to improve their health and wellbeing.
- Alberta Innovates Bio Solutions and Alberta Innovates Technology Futures have a partnership to fund researchers who use wood-based cellulose nanocrystals to create advanced materials for the fields of energy, health, industrial coatings, electronics and the environment. These advanced materials are biodegradable, non-toxic and robust. A recent applied research funding program, Cellulose Nanocrystals (CNC) Challenge 2.0 competition, launched by the partners aims to develop applications for CNC with commercialization potential. One of the eight successful applicants will use the \$25,000 and 1 kilogram of material to explore CNC’s suitability in the manufacturing of artificial heart valves. Other funding recipients will investigate the use of CNC for the treatment of wounds.
- In October 2015, Edmonton’s Advanced Energy Research Facility (AERF) was named one of the Clean50 – Top15 Projects for 2016. Alberta Innovates – Energy and Environment Solutions (AI-EES) partnered with the City of Edmonton to introduce and manage this facility. In 2015, eight organizations were at AERF testing feedstocks for gasification and production of clean biofuels and value-added products. AERF is associated with the Enerkem Waste to Biofuels and Chemicals plant, established through an AIEES, City of Edmonton and Enerkem partnership, which aims to process 90% of Edmonton’s residential waste into clean biofuels such as methanol and ethanol by next year. This will help Edmonton become an energy sustainable city and contributes to Alberta’s Climate Leadership Plan.

I am honored to serve as the Chair of the Board of Directors that oversees all four of the Alberta Innovates corporations. The four corporations are entering a new era as we embark on consolidating into one entity. Guided by Alberta's priorities, we are committed to evolving Alberta's research and innovation system to be more focused on outcomes and responsive. We will build on Alberta's strengths, creating a more diversified economy and delivering value for money while advancing our environmental and social well-being. We are motivated to enable researchers and innovators to accelerate their good ideas into impactful application and job growth.

As Chair, my responsibility is to ensure a strong strategic direction and demonstrable outcomes. It will be critical to ensure that consolidation into the single Alberta Innovates corporation is successfully accomplished by Management – a catalyst for the future economic prosperity of Alberta. Transparent, accountable and effective governance of the corporations is also essential, as detailed in this Annual Report.

As a single, strengthened Alberta Innovates, we'll have the ability to capitalize on the knowledge, experience and brain power of our staff. We'll employ cross-sectoral approaches to big challenges, offer integrated services and supports that are easy to understand and access, forge increased partnerships and deploy a strengthened research base. Regular reporting on the outcomes achieved by the corporation will be a priority.

Thank you to the staff of all four corporations for their contributions over the past year. Their efforts in leveraging relationships with industry, entrepreneurs, academia and government have enabled us to continue to offer valuable services to advance a diverse and resilient economy. This will remain critical as we transition to the future.

I would also like to recognize and thank the outgoing board members of all four corporations. Their dedication and leadership have been invaluable in establishing a strong foundation for achieving the goals we set for the new Alberta Innovates.



Judy Fairburn, MSc, MBA
Chair, Board of Directors

3 Accountability Statement

Alberta Innovates-Technology Futures' annual report for the year ended March 31, 2016 was prepared under the Board's direction in accordance with the Alberta Research and Innovation Regulation, and the ministerial guidelines established pursuant to the *Alberta Public Agencies Governance Act (APAGA)* – proclaimed June 12, 2013 and the *Fiscal Planning and Transparency Act* – proclaimed December 11, 2015. All material economic, environmental, or fiscal implications of which we are aware have been considered in the preparation of this report.



Judy Fairburn, PEng, MSc, MBA
Chair, Board of Directors

4 Reporting on Results

A Disciplined Approach to Performance Measurement

AITF is continuing its process of adopting enhanced key performance indicators to better demonstrate the value generated by the Corporation within the innovation system. In 2015-16, AITF implemented a robust scorecard of measures and results for its technology commercialization programs, which clarify AITF's purpose with Alberta's innovation ecosystem and assess AITF's performance on outcomes that are of high significance to the Province. The principles and approach used to develop this scorecard will be applied to enhance monitoring and reporting of outcomes from the Campus Alberta / Basic Research and Applied Research programs.

Commercialization

AITF, through the efforts of its commercialization services and partners in the Regional Innovation Network (RIN), will make it easier for technology-based companies to start and successfully grow their businesses here in Alberta. This will result in more competitive companies, improved employment opportunities, and economic prosperity for the Province.

The new technology commercialization scorecard was designed to enable AITF to measure the success rate of companies participating in its commercialization programs. This scorecard was built upon a detailed methodology that was used to establish baselines and prescribes processes for calculating and reporting on measures. Data to inform these measures was collected through a survey of a subset of AITF's commercialization clients that achieved a response rate of 95%. This survey was conducted independent of operations to ensure objectivity of responses, and a calendar-year approach was taken to allow for timely reporting of outcomes. As this is the first year this scorecard has been in place, current results are compared against a calculated baseline, and year over year information is not yet available. Future results will be compared against this foundation to identify successes and areas for improvement. Select key metrics arising from this initiative are shown subsequent to the funding provided to Alberta SMEs, and are described below.

401 net new jobs created.
*83% are full-time.

Arising from a \$20 million investment from AITF's industry support programs, SMEs created 401 new jobs, of which 83% are full-time. This amounts to an average of 2.5 jobs created per SME.



For every dollar invested by AITF, net revenues of funded SMEs grew by \$4.80.

Based on Statistics Canada data from the 2015 Labour Force Survey, job growth in Alberta overall during calendar year 2015 was 1.29%. However, job growth for SME's funded through AITF in 2015 was significantly higher at 29%.



*Statistics Canada - December 2015 Labour Force Survey



*Industry Canada - Key Small Business Statistics, August 2013.

Statistics from Industry Canada in 2013 indicate that just 10.4% of Canadian SMEs export their goods and services. However, among SMEs receiving funding from AITF's technology commercialization programs, this percentage increases to 53%.



An investment of \$1 by AITF generates \$9.50 in subsequent capital raised by the SME. 19% of this follow-on investment came from other public sources and 81% was from private investment.

Applied Research

AITF's Applied Research function supports the development of globally competitive businesses by de-risking and accelerating the adoption of new innovative technologies. The scope and scale of Alberta's Applied Research capacity is unique among Canadian provinces, and the corporation's focus on innovation in Alberta enables and supports opportunities that may be overlooked by national programs. Applied Research generates industry-funded research of approximately \$56.8 million for the 12 months ended March 31, 2016 through its research and contract services and receives \$33 million per year in provincial funding.

Performance measurement in Applied Research is focused on quantifying revenue, account retention, and investment leverage. In the coming years, new measures will be developed for Applied Research that aim to establish outcomes and impact on the Draft 2030 Innovation Targets.

Performance Measure(s)	Actual 2014-15	Target 2015-16	Actual 2015-16
Contract Revenue ¹	\$63.5M	\$56.9M	\$60.3M
Account Retention ²	53%	55%	57%
Investment Leverage ³	4.1	4:1	4:1

1 Dollar value of total Contract Revenue and Product Sales

2 % of accounts (by revenue) retained year over year

3 Multiple of total revenue to unrestricted provincial grant investment

Contract revenues were negatively impacted by sharp and rapid decline in price of oil this year.

Campus Alberta / Basic Research

AITF accelerates innovation in early stage research within Alberta by supporting the attraction, education, training, and deployment of Highly Qualified and Skilled People (HQ/SP) into Alberta's key economic sectors, and through directed research activities that will accelerate basic and Applied Research deployment. As with Applied Research, Campus Alberta / Basic Research measures focus on leverage and retention, as well as the Chair funding program. New measures for Campus Alberta / Basic Research are currently in development.

Performance Measure(s)	Actual 2014-15	Target 2015-16	Projected 2015-16 ¹
Retention of HQ/SP ²	64%	60%	59%
Leverage of HQ/SP funding ³	4:1	3:1	3:1
Number of University Chairs	42	35	42
Research teams supported by Chairs	794	665	725

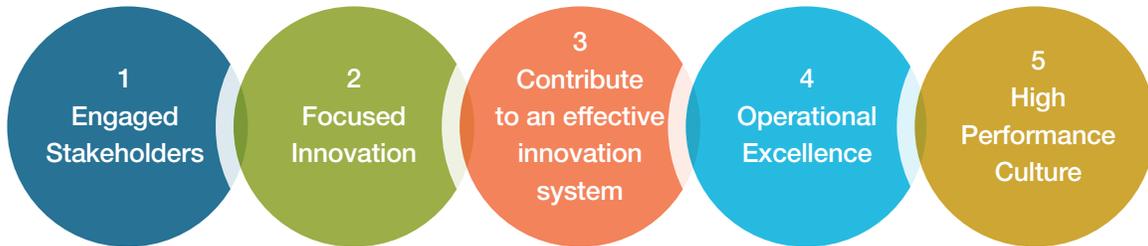
1 Figures are projected due to the difference in timing between this Annual Report and when annual and final reports are received from award recipients.

2 % of HQ/SP, through graduate student scholarships programs, retained in Alberta.

3 Ratio of AITF dollars to non-AITF dollars in HQ/SP funding areas.

A Year in Review

AITF has five long term strategic objectives to guide its delivery on its mandate, which provide focus for the Corporation's industry-oriented structure. These strategic objectives are:



As an organization AITF is dedicated to challenging the status quo and enhancing its outcomes, and has undertaken a number of projects and initiatives during 2015-16 toward achieving these strategic objectives. Select initiatives are presented below.

Focusing on Client Satisfaction for Granting Programs (strategic objectives 1 2 3)

In March 2016 AITF conducted its second annual Client Survey with applicants and participants of AITF's funding programs. The survey was conducted by a third-party market research group. This survey supports AITF's goal to develop customer feedback mechanisms that drive continuous improvement and enhance responsiveness to client needs in all areas of our business. The survey included customers from AITF's commercialization programs and covered a number of factors associated with the services provided by the programs, such as perceived impact of the support on the business, satisfaction with the AITF representative, and the overall helpfulness of the services.

A total of 314 responses were received for the 2016 survey (216 in 2015), resulting in an overall certainty of 95% ($\pm 3\%$). This represents a participation rate of 71% (48% in 2015).

Overall Experience with AITF (% very helpful or extremely helpful)	2015	2016	Year over year increase (decrease)
Product Demonstration Program	83%	90%	7%
Voucher Programs	90%	86%	(4%)
Industry Commercialization Associates Program	71%	100%	29%
R&D Associates	71%	93%	22%
TDA Program	N/A	93%	N/A

The high level of satisfaction achieved is very encouraging. AITF will use the results of this survey to further refine and improve specific areas of its commercialization programming going forward, and will continue to run the customer survey on an annual basis to track its progress.

Expanded suite of funding programs for SMEs (strategic objectives 1 2 3)

AITF has launched the Alberta Small Business Innovation and Research Initiative program, which will foster demand-pull innovation by matching the technologies and expertise of Alberta's SMEs to the critical challenges of large end-users in the public and private sector. The program acts as a mechanism to enable SMEs to provide technology and innovative solutions to address priority challenges identified by end-users.

For Alberta SMEs, the program provides funding support, mentorship, and potential first-client opportunities to develop technology solutions with real market potential. For end-users, the program mitigates the risk of technology adoption while supporting the development of a solution to a known challenge, by providing them with the opportunity to try and, ideally, procure the resulting solution.

Offering an objective, independent perspective (strategic objectives 3)

During the year, AITF continued to provide independent, objective lab services to government and industry clients. The ability to provide unbiased data and recommendations is unique in Canada, and places AITF in a position to assess potentially sensitive incidents while remaining neutral on the results.

In the past year, AITF supported Transport Canada to conduct a review of the applicability of current classification requirements under Transportation of Dangerous Goods Regulations for crude oils. This project arose from the Lac-Mégantic tragedy where a train of crude oil derailed in downtown Lac-Mégantic causing catastrophic damage, which spurred a renewed focus on the classification of crude oil as a flammable liquid by regulators and the role of volatile components in determining an accurate classification.

Transport Canada wanted to know if their current regulations and test methods were sufficient for public safety and if there were additional hazards posed by crude oil that were not being considered. Transport Canada recognized AITF had the resources, specialized expertise, and facilities to perform the sampling and standardized testing, and that AITF's objective results would be acceptable to both industry as well as the regulator. This critical project extended over a period of one year and involved 30 AITF staff members in the Edmonton Millwoods and Devon locations. AITF's report has been provided to Transport Canada and we continue to work with them on other projects related to transportation safety.

Maintenance of external contract revenues (strategic objectives 4 5)

Despite a significant downturn in the oil and gas sector, AITF has managed to achieve external contract revenues in excess of its budget. This is a direct result of the strong relationships our staff have cultivated with industry and government partners, and demonstrates one aspect of the value our key resources provide. AITF's HQ/SP offer value to our clients through technical and business acumen, which translates into stronger relationships and greater revenue stability even in uncertain economic realities.

Enhancing geographic access (strategic objective 1 3)

Alberta's goals for innovation are consistent with national and international objectives: to build globally competitive enterprises resulting in job creation, economic growth, and a higher quality of living for all. SMEs, on their own, lack the connections and logistical infrastructure to access international markets and this is where AITF has a key role to play as an intermediary to accelerate this process.

AITF recognizes that supporting exports is important and, in collaboration with Alberta Economic Development and Trade (EDT), we leverage our national and international relationships to develop key targeted business-to-business and research-to-commercialization opportunities with priority regions around the globe. In Canada we have a strong relationship with Ontario where we leverage the Ontario Centres of Excellence to deliver on mutually beneficial projects for both provinces. AITF also manages key priority relationships with the State of Jalisco in Mexico and the Province of Zhejiang in China. These programs help to remove barriers for SMEs to support their efforts to launch their products into new markets and develop collaborative relationships with researchers and businesses in other jurisdictions.

Technology commercialization plan developed and endorsed by EDT (strategic objectives 1 3)

During the year, a technology commercialization plan was developed as a joint initiative between EDT and AITF to explore ways to align and integrate key organizations and support services within the technology commercialization system in Alberta. The goals of these strategic partnerships are to increase the success rates of SMEs, support employment growth in technology sectors, create new revenue streams, and ultimately diversify the economy.

In its capacity as a system integrator and facilitator, AITF's collaborative partners include EDT, the Innovation Collaboratories, the RINs, Regional Economic Development Alliances (REDAs), Campus Alberta institutions, and other technology commercialization system players and stakeholders. By coordinating the activities of these diverse organizations, AITF is helping to develop a stronger technology commercialization system in Alberta that is outcome-oriented, efficient, and highly accessible.

In recognition of the critical importance of the technology commercialization function to growing Alberta jobs and globally competitive commerce, AITF has partnered with EDT to strategically invest in high demand industry support programs. As a result of this increased focus, funding for the Enhanced Voucher Program increased by \$5.0 million per year on an ongoing basis beginning from January 2016.

Expanded mentorship programs (strategic objectives 1 3)

Recognizing the importance of strategic mentorship and guidance in creating successful, sustainable businesses out of innovations in technology and services, AITF has begun to place greater emphasis on the role played by our Executive Business Advisors (EBAs) and Technology Development Advisors (TDAs). AITF's position in this space is unique – our EBAs do not receive an equity stake in the businesses they mentor, and the SMEs receiving these valuable mentorship services (from EBAs and TDAs) are not charged for this support. The success factor for both TDAs and EBAs is not the amount of program funding allocated to SMEs, but rather the results achieved by the SMEs receiving mentorship services. This focus on outcomes underpins the unique nature of the approach taken by AITF. This emphasis comes from the decision two years ago to move away from offering only financial support to beginning with operational and strategic mentorship and strong due diligence before exploring options for financial support through funding programs. Since this shift, AITF has witnessed a tremendous increase in the viability and growth of organizations receiving strategic guidance and mentorship compared to those who receive only financial support. The results of the independent customer survey confirm this, with 93% of those who worked with a TDA describing the interactions as helpful or very helpful. However, just 51% of the survey participants (out of 314 survey participants) worked with a TDA, highlighting the need for greater availability of these valuable resources.

Our EBAs and TDAs play a key role in AITF's strategic contribution to Alberta's innovation system. By offering mentorship and leadership to technically-minded SMEs, AITF is able to cultivate sustainable businesses out of innovation, and better deliver on our mandate. AITF has increased the number of TDAs from three at the beginning of the fiscal year to five as at March 31, 2016 and has plans to further increase its roster of TDAs to between ten and twelve by the end of 2016-17.

Leveraging Applied Research facilities and expertise (strategic objectives 1 2 3)

During the year, AITF successfully completed a pilot of the revamped Alberta Manufacturing and Fabrication Innovation (AMFI) Program which aims to help Alberta manufacturers and fabricators become globally competitive by accelerating the adoption of new and advanced technologies to increase productivity and quality. In 2015-16, AMFI engaged directly with over 120 Alberta companies and identified 21 common challenges among metal manufacturers and fabricators that may be addressed through new technology adoption. AMFI coordinated a number of events and industry support activities, which results in positive impact on the operations for participating companies' through modification to existing or the acquisition of new equipment. With continued funding now in place, this program will continue to support Alberta companies.

Real time adaptation of long term research projects (strategic objectives 1 2 3)

Established in 1984, the Alberta Research Council Core Industry (AACI) is a world class, 12 member research and development (R&D) consortium managed by AITF and directed by the oil sands industry with the purpose of developing and improving economically viable in-situ recovery technologies for heavy oil and bitumen resources. AACI is credited with creating over \$2 billion in annual economic impact for the Province of Alberta.

While this consortium consists of forward-looking players investing in R&D, this year AITF has taken proactive steps to ensure AACI's continued relevancy following the dramatic and sustained drop in oil prices. AITF worked with AACI to develop a new five-year plan with consideration given to the current challenges facing the oil and gas sector. Strategic Task Groups were also established to enable industry partners to actively select and manage projects within AACI. This allows AITF to ensure research priorities are in line with the new realities of the oil and gas industry.

Adaptations such as this are indicative of AITF's constant pursuit of opportunities for improvement and commitment to being responsive to changing needs. In this case, AITF looked at a new way of collaborating within a long standing program to ensure it continues to align with the current needs of industry.

Alberta Forest Products' Innovation Consortium (strategic objectives 2 3)

During 2015-16, the Alberta Forest Products' Innovation Consortium was formed. This is a partnership between a number of Alberta forest companies and AITF, with the founding industry members representing five of Alberta's pulp mills. The Consortium is a continuation of the work developed under the Alberta Forest Products' Roadmap, and aims to address common issues and challenges facing the forest sector, ranging from identifying efficiencies (to reduce costs, improve performance, etc.) to exploring opportunities for new product development to help diversify their production. AITF plays the role of coordinator for the Consortium, either bringing Applied Research and Commercialization capacity to the group or identifying others who have specific skills and capacity that can help move projects forward.

Critical investments in challenging times (strategic objectives 2 3)

There is a tendency for governments and industry to retract spending on research and innovation in challenging economic climates. However, a publically supported innovation system must take a long term view toward continued development regardless of current economic conditions. Value-added investments are essential and one such example is the new Mesocosm program, which links field surveys and highly controlled laboratory experiments.

During the year, AITF finalized a ten-year Collaboration Agreement with the University of Alberta (U of A). This agreement included the construction of a 16 terrestrial mesocosm array at AITF's Vegreville facility and the set-up of a management committee to support a collaborative research partnership between the U of A and AITF on terrestrial mesocosm research. These mesocosms are outdoor model systems that represent environments found in the prairie provinces. They allow for experiments on Alberta's most pressing environmental challenges, including establishing reclaimed landscapes and understanding the impact of pipeline spills. Future partnerships are anticipated with Canada's Oil Sands Innovation Alliance Land and Tailings EPA (in a Joint Industry Project with Teck Resources taking the lead) and Canadian Natural Resources Ltd.

Projects of this nature highlight the opportunity for AITF and innovation system partners, including industry and government, to continue to invest in innovation regardless of the current economic climate.

New capital investment program (strategic objective **4**)

In response to concerns around capital investment and aging infrastructure, EDT has budgeted an annual \$3 million for provincial innovation infrastructure capital maintenance and renewal for the next five years. AITF looks forward to managing the Corporation's annual allocated portion of the \$3 million for critical capital investments required to support industry. This is a critical step forward for an organization like AITF, as technological advancement and investment in the cutting-edge technology are key to the work AITF's Applied Research business performs. Adequate capital investment is an expectation and requirement of industry customers and is necessary to protect the critical Applied Research capacity established by the Province.

Draft Alberta 2030 Innovation Targets (strategic objectives **1** **2** **3** **5**)

The Government of Alberta, through EDT, has established Innovation Collaboratories in the areas of health, energy, environment, fibre/bioindustrial, food-agriculture, and emerging technologies. The Collaboratories have developed the Draft 2030 Innovation Targets to focus research and innovation investments in priority areas perceived to have the greatest game-changing value for Albertans. As the Draft 2030 Innovation Targets have a broader government and agency membership, these targets have replaced AITF's grand challenges, which were developed by AITF as a strategic framework to guide its investment in innovation. The Draft 2030 Innovation Targets were developed with the same outcome-oriented mindset as the grand challenges, and will serve as a province-wide framework going forward.

AITF has aligned its business strategies to the Draft 2030 Innovation Targets and outcomes as outlined in the Alberta research and innovation framework. These strategies ensure that sector office investment portfolios are focused on programs and projects with a high likelihood of achieving appreciable progress towards the provincial targets, create line-of-sight from AITF activities to the Draft 2030 Innovation Targets, and help AITF staff understand how their work aligns with the Province's larger innovation system.

5 Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) contains management's interpretation of Alberta Innovates-Technology Futures' (AITF) financial performance for the 2015-16 fiscal year. This MD&A should be read in conjunction with AITF's 2015-2016 audited consolidated financial statements and related notes to the consolidated financial statements.

All figures are presented in thousands of Canadian dollars, unless otherwise specified and are reported in accordance with Canadian Public Sector Accounting standards.

The information in this MD&A is prepared as of May 31, 2016.

Forward-Looking Statements

This Annual Report contains forward-looking statements about the objectives of AITF and management's expectations, beliefs, intentions, and strategies for the future.

All forward-looking statements related to future events reflect management views as at March 31, 2016 and are subject to certain risks, uncertainties and assumptions. Actual results, performance and/or achievements may materially differ from any such forward-looking statements. Risks, uncertainties and assumptions include, but are not limited to: general economic conditions (particularly the price of oil); actions by government authorities; actions by regulatory authorities; availability of staff; foreign exchange rates; competitor activity; pricing pressures; and significant major catastrophic natural events.

Assumptions and commentary presented in this MD&A are also based on the assumption that AITF will consolidate with the other Alberta Innovates corporations during the summer of 2016. As the consolidation is pending, the outcome of this restructuring may have additional unanticipated impacts.

Corporate Profile

Established in January 2010 as a Provincial Corporation (as defined in the Financial Administration Act) and operating under the authority of the Alberta Research and Innovation Act, AITF supports research and innovation activities targeting the development and growth of technology-based sectors in alignment with Government of Alberta priorities.

AITF is accountable to the Minister of Economic Development and Trade (EDT). C-FER Technologies Inc. (C-FER) is a wholly owned subsidiary of AITF.

Alberta Innovates was conceptualized as a mechanism to align, focus and optimize provincial research and innovation investments and efforts. Technology Futures collaborates with its sister Alberta Innovates Corporations (Bio Solutions, Energy & Environment Solutions, and Health Solutions) within the Alberta Research and Innovation System. Strategically aligned to the direction of the Government of Alberta, the Innovation System supports: effective resource and environmental management; a broadened economic base; and, resilient and healthy communities.

Subsequent to the end of the current fiscal year, the Government of Alberta announced a consolidation of all Alberta Innovates corporations into a single entity under EDT. The date of this consolidation is yet to be announced. Please refer to note 13 in the notes to the consolidated financial statements at the end of this Annual Report for more information.

Core Business

AITF is part of Alberta's research and innovation system and is helping build healthy, sustainable businesses in the Province. Through a suite of programs and services directed towards entrepreneurs, companies, researchers and investors, AITF is focused on helping Alberta prepare for a next generation economy.

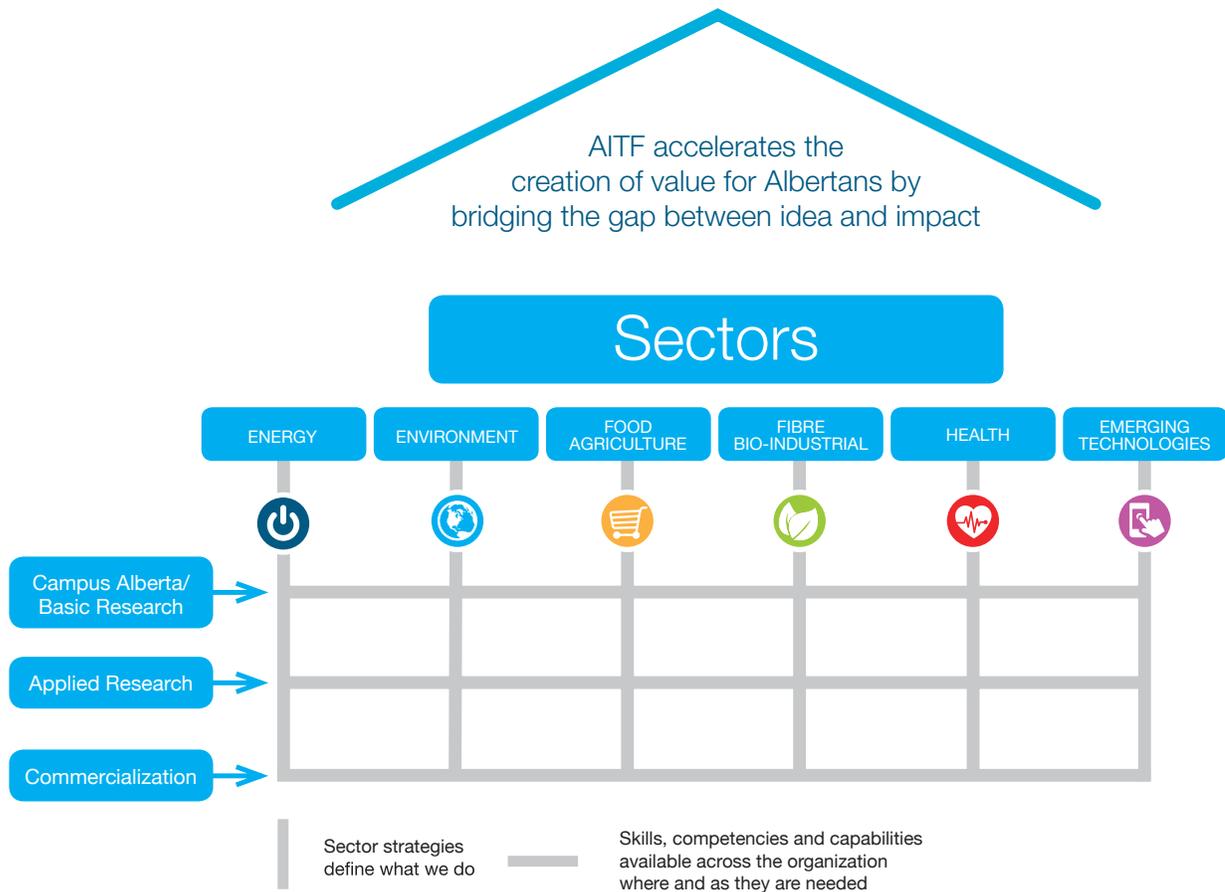
AITF's business is to build globally competitive commerce in Alberta by accelerating:

- commercial adoption of new technologies and practices;
- growth of new knowledge-based industry clusters; and
- development of high growth technology-based businesses.

AITF has a unique business model, founded on the principles of the innovation and technology adoption curve, also known as the "S" curve, with investments made at the Basic Research, Applied Research, and Commercialization stages. This is the foundation of AITF's financial model. Overlaid on this "S" curve are AITF's six strategic Sector Offices, which provide services at each stage of the curve to clients in their sector. The result is a matrix operating model which links together the financial and sector components of AITF's business. The purpose of this model is to support both organic and intentional connectivity to accelerate positive innovation outcomes.

Operating Model: Alignment with the Five Strategic Sectors

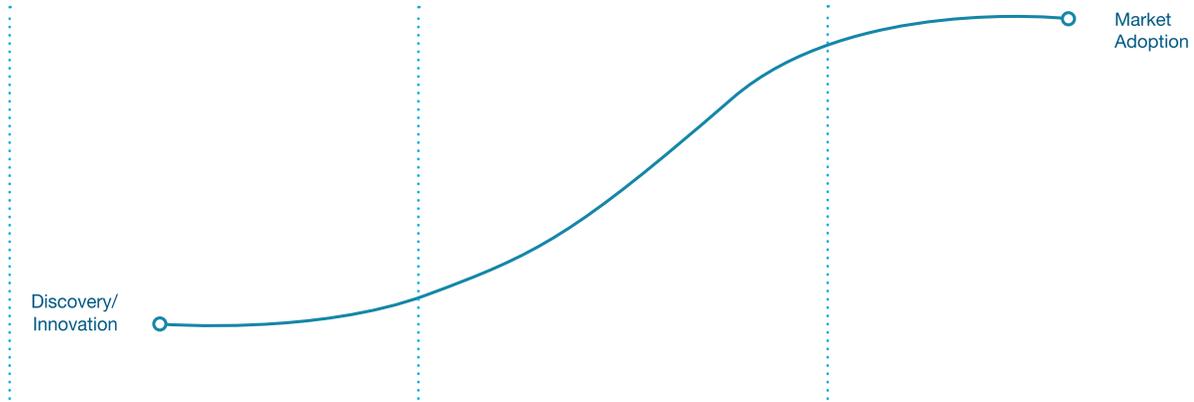
The operating model links the stages of the technology adoption curve to the six strategic sectors within AITF's focus: energy, environment, food-agriculture, fibre/bio-industrial, health and emerging technologies. Within each Sector, services are provided to support programs and projects at the Basic Research, Applied Research, and Commercialization stages as shown below.



This model results in a more unified approach across the organization and increases organizational effectiveness as well as economic and societal benefits to Albertans (ESBA). The model has also been designed to align with the Collaboratory projects driven by EDT, for which AITF, as the key provincially-funded research organization in Alberta, acts as a support mechanism and enabler.

Operating Model: Stages on the Innovation and Technology Adoption Curve

The chart below provides greater details on AITF’s operating model.



	Basic Research	Applied Research	Commercialization
Objectives	Campus Alberta / Basic Research portfolio provides funding for early stage R&D activities in support of the creation of new science-based knowledge.	AITF’s Applied Research function supports the development of globally competitive businesses by both de-risking and accelerating the adoption of new innovative technologies.	AITF’s Commercialization programs drive toward quantifiable results for the Province, such as increased jobs and revenue for SMEs. This is accomplished through its industry support programs, mentorship capacity, and the RIN system.
Clients	Campus Alberta / Basic Research’s primary end clients are Alberta’s priority industry sectors. Programs primarily focus on the establishment and funding of university centres of excellence and personnel. Post-secondary programs offer a broad range of support to researchers at all stages of their careers, from graduate students to the world’s top researchers.	Acting as a bridge between its industry and government clients, Applied Research facilitates connections among SMEs, multi-national enterprises (MNEs), large Canadian resource companies, industry groups and consortiums, and other government organizations. AITF’s Applied Research function has extensive facilities that are used to undertake pilot and scale-up initiatives, including one million square feet of product/process development and scale-up facilities and a 300 hectare research farm. These facilities are key to demonstrating the viability and value of innovative technology.	The Commercialization function provides support to high-growth potential SMEs by providing: <ul style="list-style-type: none"> • Non-dilutive capital to SMEs through initiatives such as the Industry Associates program which allows SMEs to hire the right skillsets to develop and market their innovative technologies and the Product Demonstration Program which links SMEs to first customers. • Business mentorship expertise through our TDAs and EBAs and a Capital Access Team which supports Alberta SMEs looking for funding beyond the public sector.
Funding Model	Campus Alberta / Basic Research forms part of the assets under management side of AITF’s operations as funding is largely from restricted grants from the Government of Alberta dedicated to specific programs.	Funding for Applied Research is provided through external contract revenue obtained from customers in the various sectors, with a heavy concentration in oil and gas, and from the unrestricted portion of funding from the Province.	Commercialization programs form part of the assets under management side of AITF’s operations as funding is largely from restricted grants from the Government of Alberta dedicated to specific programs.

Operating Results

Selected Financial Information

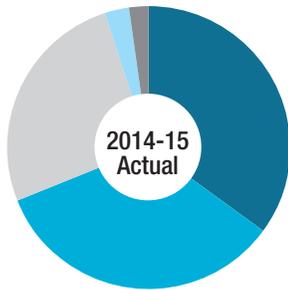
<i>\$ in thousands</i>	2014-15 Actual	2015-16 Actual	2015-16 Budget	2016-17 Budget
Revenue	\$ 160,199	\$ 163,119	\$ 165,274	\$ 154,760
Expenses	168,057	162,222	168,791	158,626
Annual Operating (Deficit)/Surplus before Loss on Disposal/Impairment of Tangible Capital Assets	(7,858)	897	(3,517)	(3,866)
Loss on Disposal/Impairment of Tangible Capital Assets	54	36	-	-
Annual Operating (Deficit)/Surplus	\$ (7,912)	\$ 861	\$ (3,517)	\$ (3,866)
Cash	\$ 55,765	\$ 71,918	\$ 37,658	\$ 46,792
Working Capital	\$ 14,776	\$ 15,447	\$ 10,470	\$ 10,355
Tangible Capital Assets	\$ 31,022	\$ 31,212	\$ 31,414	\$ 32,438
Net Assets	\$ 45,798	\$ 46,659	\$ 42,281	\$ 42,793

The operating surplus for 2015-16 was \$0.9 million as compared to a deficit of \$7.9 million in 2014-15, an increase of \$8.8 million. Correspondingly, the operating surplus for 2015-16 was \$4.4 million above budget. These increases were due mainly to strong external contract revenues and prudent cost reductions.

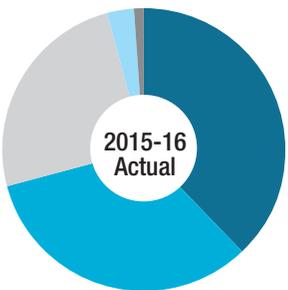
Revenues

<i>\$ in thousands</i>	2014-15 Actual	2015-16 Actual	% Change	2015-16 Budget	% Change	2016-17 Budget
Restricted Provincial Funding	\$ 53,905	\$ 61,884	15%	\$ 65,908	-6%	\$ 67,843
Government of Alberta Grants	41,940	40,422	-4%	41,722	-3%	37,880
External Contract Revenue	55,614	54,556	-2%	50,046	9%	43,457
Contract Revenue from the Province of AB	3,495	4,032	15%	4,077	-1%	4,104
Other Revenue	5,245	2,225	-58%	3,521	-37%	1,476
Total Revenue	\$ 160,199	\$ 163,119	2%	\$ 165,274	-1%	\$ 154,760

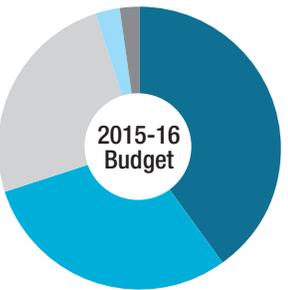
Total revenue increased by \$2.9 million (2%) from \$160.2 million in 2014-15 to \$163.1 million in 2015-16. The higher revenue is attributed to higher restricted provincial funding received in the year due to a focus on Commercialization programs in the year. This increase in revenues was partly offset by lower unrestricted provincial funding and external contract revenues due to the overall decline in the oil and gas sector.



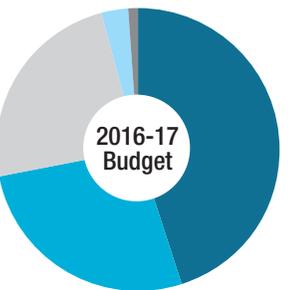
- 35% External Contract Revenue
- 34% Restricted Provincial Funding
- 26% Government of Alberta Grants
- 3% Other Revenue
- 2% Contract Revenue from Province of Alberta



- 38% Restricted Provincial Funding
- 33% External Contract Revenue
- 25% Government of Alberta Grants
- 3% Contract Revenue from Province of Alberta
- 1% Other Revenue



- 40% Restricted Provincial Funding
- 30% External Contract Revenue
- 25% Government of Alberta Grants
- 3% Contract Revenue from Province of Alberta
- 2% Other Revenue



- 44% Restricted Provincial Funding
- 28% External Contract Revenue
- 24% Government of Alberta Grants
- 3% Contract Revenue from Province of Alberta
- 1% Other Revenue

Proportion of Revenues

As a proportion of total revenue, in 2015-16, restricted provincial funding increased to 38% relative to 2014-15 (34%). This was slightly below the 40% of total revenue as originally budgeted. Looking forward to 2016-17, budgeted restricted provincial funding makes up approximately 44% of total revenue. The overall increase to the restricted provincial funding portfolio is due mainly to a greater awareness and uptake of Commercialization programs, which will be discussed further in this section.

The following is a discussion of the significant changes in Revenue components.

Restricted Provincial Funding



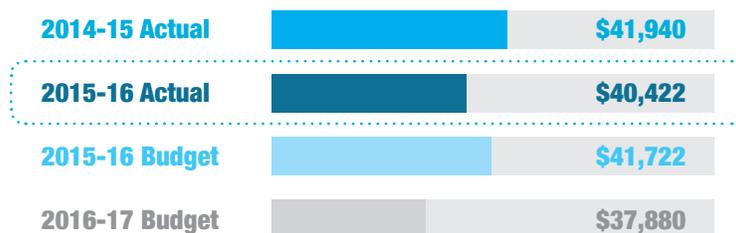
The Campus Alberta / Basic Research and Commercialization functions are funded primarily through restricted grants from the Government of Alberta. Restricted provincial funding includes restricted provincial grants of \$50.7 million in 2015-16 (\$55.7 million in 2014-15), which encompasses the core funding for these functions and other provincial funds of \$11.2 million in 2015-16 (\$10.2 million in 2014-15), which includes funding for specific programs that are deemed to fit in with the Province's innovation outcomes.

Restricted provincial funding increased by \$8.0 million (15%) relative to 2014-15. This increase was mainly attributed to a greater uptake of Commercialization programs as well as an increase in funding as a result of contractually tied milestones for programs such as the Nano Accelerator and the Alberta Centre for Advanced MNT Products (ACAMP).

Although restricted provincial funding increased year over year, 2015-16 was still \$4.0 million lower as compared to the 2015-16 budget. Part of this is due to the approach taken on budgeting for restricted revenues, which assumes all funding available will be recognized in the year. However, since most programs contain milestones that extend over multiple fiscal periods, the restricted provincial funding recognized is often lower than budget. When these timing differences occur, the transfers are recorded as deferred revenue on AITF's consolidated statement of financial position. This is discussed further in the liquidity and financial position section of this MD&A.

Due to the restrictions placed on this type of funding, grants provided for the respective programs cannot be reallocated to other programs or used for operations outside their restricted scope of application. As such, restricted grants cannot be used to fund the operations of AITF.

Government of Alberta Grants



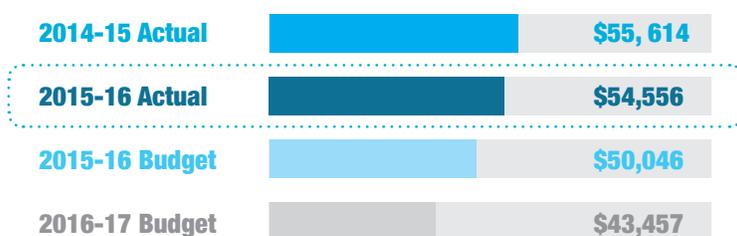
The Applied Research function is partly funded through unrestricted grants from the Government of Alberta.

Government of Alberta grants decreased by \$1.5 million (-4%) relative to 2014-15. Correspondingly, 2015-16 was also lower as compared to the 2015-16 budget of \$1.3 million (-3%). These decreases were due primarily to a decision, in collaboration with the Government of Alberta, to suspend funding to an innovation intermediary. AITF has subsequently taken on the innovation support previously provided by this innovation intermediary, which includes providing Information Communication Technology support for Alberta SMEs.

This unrestricted grant funding is vital to maintain stability, support successful industry consortia, and generate additional longer term research support from other government and industry sources. AITF strives to maintain long term strategic R&D capacity on behalf of the Government of Alberta while ensuring relevance through market discipline and industry linkages.

Due to the fact that there are no restrictions placed on unrestricted grants, this funding can be utilized for operational needs and any changes in funding can affect the operating surplus or deficit significantly. Any reductions in the unrestricted funding from the Government of Alberta can reduce AITF's ability to adapt its portfolio of Applied Research programs and services to meet evolving market conditions and effectively manage its net operating results. That being said, the portfolio mix between restricted and unrestricted funding is an area in which AITF works fairly closely with the Government of Alberta in order to ensure that the Corporation can make strategic and effective use of the funding to meet the research and innovation priorities of the Province.

External Contract Revenue

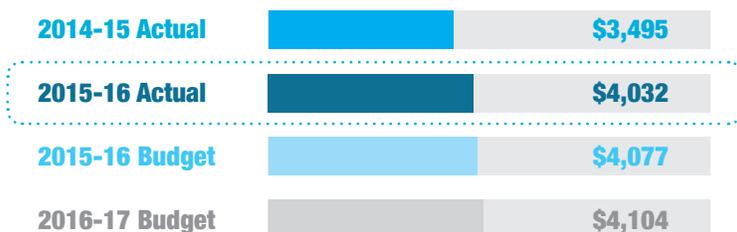


External contract revenue from industry clients decreased by \$1.1 million (-2%) relative to 2014-15. When comparing to budget, external contract revenue was \$4.5 million above budget (9%), however, this was largely driven by an unbudgeted one-time contract acquired by C-FER in the amount of \$8.8 million. Taking this contract out of account, the resulting external contract revenue is \$45.8 million, which would result in a decrease of \$9.8 million (-18%) and \$4.3 million (-9%) below 2014-15 and the 2015-16 budget, respectively. Additionally, the average dollar value of external contracts and the total number of external contracts signed has also decreased, as compared to 2014-15.

This decline is primarily driven by the fact that AITF's external contract revenues are mainly derived from clients operating in the energy sector, and impacts of persistent low oil prices on these clients translates into decreased external contract revenues for AITF.

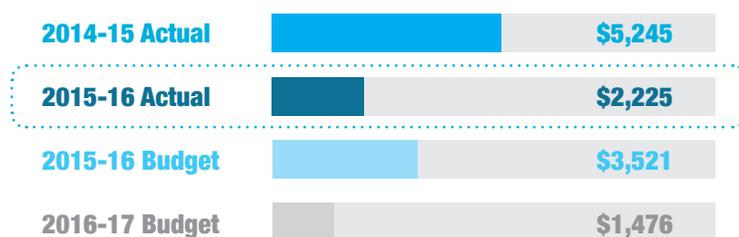
Given its magnitude and non-restrictive nature, this revenue stream significantly impacts AITF's annual operating surplus or deficit. Since most of AITF's expenses are fixed in the short term, declines in external contract revenues can have a disproportionately negative impact on AITF's net operating results.

Contract Revenue from the Province of Alberta



Contract revenue from the Province of Alberta increased by \$0.5 million (15%) relative to 2014-15, but was consistent with the 2015-16 budget. This increase was primarily due to increased environmental monitoring performed in the fiscal year.

Other Revenue



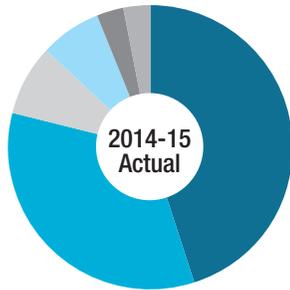
Other revenue includes product sales of \$1.7 million (\$4.4 million in 2014-15) and investment income of \$0.5 million (\$0.9 million in 2014-15) which decreased by \$3.0 million (-58%) from 2015-16 relative to 2014-15. Correspondingly, other revenue was lower than budget by \$1.3 million (-37%).

These decreases were due mainly to a \$2.6 million (-60%) decrease in product sales relative to 2014-15 and a \$1.0 million (-36%) decrease as compared to the 2015-16 budget. Product sales consist of made-to-order sales of sensors for the mining industry which are low volume, high-dollar-value transactions. These sales are directly tied to new oil sands mine construction, and given that there is no new construction currently taking place due to the overall slowdown in the energy sector, AITF's revenue from product sales have declined correspondingly and is not expected to increase in the foreseeable future, as shown by the 2016-17 budget.

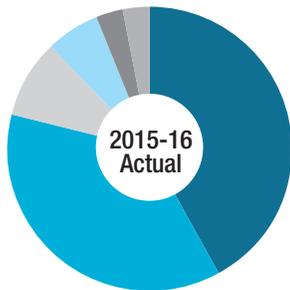
Expenses

<i>\$ in thousands</i>	2014-15 Actual	2015-16 Actual	% Change	2015-16 Budget	% Change	2016-17 Budget
Salaries, wages and benefits	\$ 74,901	\$ 67,781	-10%	\$ 69,889	-3%	\$ 67,172
Grants	56,344	59,622	6%	63,517	-6%	60,127
Subcontractor	13,520	13,997	4%	7,757	80%	8,221
Other Expenses	13,425	11,966	-11%	15,789	-24%	13,690
Material and supplies	5,308	4,208	-21%	6,581	-36%	4,357
Amortization	4,613	4,684	2%	5,258	-11%	5,059
	\$ 168,111	\$ 162,258	-3%	\$ 168,791	-4%	\$ 158,626

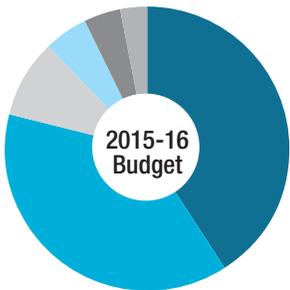
Total expenses decreased by \$5.9 million (-3%) from \$168.1 million in 2014-15 to \$162.2 million in 2015-16. Correspondingly, total expenses were also \$6.6 million (-4%) lower than budget. Total expenses were lower due primarily to the prudent management of salaries, wages and benefits as well as cost cutting of discretionary expenses in the year.



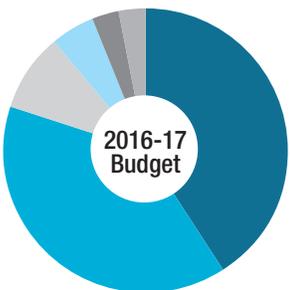
- 45% Salaries, wages and benefits
- 34% Grants
- 8% Subcontractor
- 7% Other expenses
- 3% Amortization
- 3% Material and supplies



- 42% Salaries, wages and benefits
- 37% Grants
- 9% Subcontractor
- 6% Other expenses
- 3% Amortization
- 3% Material and supplies



- 41% Salaries, wages and benefits
- 38% Grants
- 9% Other expenses
- 5% Subcontractor
- 4% Material and supplies
- 3% Amortization



- 42% Salaries, wages and benefits
- 38% Grants
- 9% Other expenses
- 5% Subcontractor
- 3% Amortization
- 3% Material and supplies

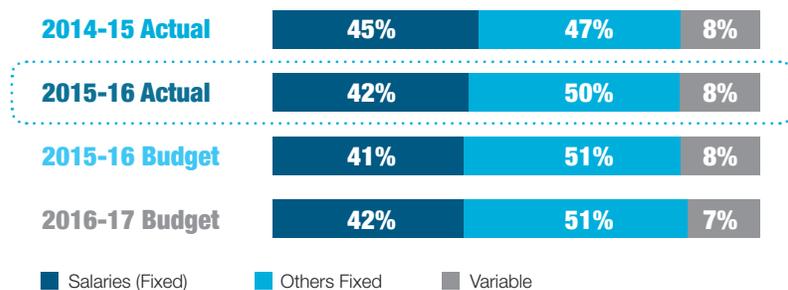
Proportion of Expenses

As a proportion of total expenses, in 2015-16, salaries, wages and benefits decreased to 42% relative to 2014-15 (45%). This was slightly above the 41% of total expenses as originally budgeted. Looking forward to 2016-17, budgeted salaries, wages and benefits stays consistent at 42% of total expenses. Management has prudently taken cost containment measures with respect to these expenditures.

Correspondingly, grants expense in 2015-16 increased to 37% relative to 2014-15 (34%) and is expected to continue increasing, as shown in the 2016-17 budget. This is primarily due to the increase in restricted provincial funding, as discussed previously.

The following is a discussion of the significant changes in Expense components.

Fixed versus Variable Expenses as a Proportion of Total Expenses



As shown above, the majority of AITF's expenses are considered to be fixed and not up to management's discretion in the short term. This is due to the requirement for a minimum level of investment in basic operating materials and support to ensure the sustainability of ongoing operations. Other fixed expenses as shown above include:

- Grants expenses;
- Amortization;
- Maintenance and rental (excluding computing) expense; and
- 50% allocation of subcontractor, other expenses and materials and supplies.

Given the above, 50% of subcontractor, other expenses and materials and supplies are considered to be variable. Of the total expenses of \$162.2 million in 2015-16, approximately 8% is considered to be variable, which is a relatively small proportion of AITF's overall cost structure. Even so, management has continued to prudently manage these variable expenses despite the inherent limitations due to the proportion of fixed costs. In addition, salaries, wages and benefits expense are generally fixed in the short and long term unless there is a predetermined decision to reduce staffing levels or delay recruitment activities.

Salaries, Wages and Employee Benefits



Salaries, wages and employee benefits expense decreased by \$7.1 million (-10%) relative to 2014-15, which also was \$2.1 million (-3%) lower than budget. The decrease was as a direct result of a reduction in the number of budgeted full time equivalents from 599 at April 1, 2015, to 564 at March 31, 2016. This 6% reduction was the result of management's decision to not fill vacant budgeted positions, elimination of pay increases for professional staff, and also a result of attrition.

As at March 31, 2016, 37% of these employees are included in the bargaining unit. The Collective Agreement for this unit was renewed for a 4.5 year period from April 1, 2013 to September 30, 2017, which was prior to the drop in oil prices. AITF will continue to honor annual wage increases per this collective agreement.

Management can monitor and manage salaries, wages and employee benefits where possible. However, given that AITF is a publicly funded research and innovation organization managing programs with long development cycles, and taken into consideration the impact of employees included in the bargaining unit, these expenses are considered fixed in the short-term unless major structural changes are undertaken or reductions to long-term programs are considered.

AITF's core strength is the expertise and experience of its dedicated researchers and staff. AITF's experts are well known within the industry and external research contracts typically arise as the result of relationships developed by individual staff members. Following the streamlining already undertaken, AITF is committed to promoting stability and security for its people and clients where possible.

Grant Expense



Grant expense consist of costs incurred to support product and market development and the commercialization needs of industry, post-secondary institutions and other innovation partners. Grant expense increased by \$3.3 million (6%) relative to 2014-15, which was due mainly to the increase in restricted provincial funding as discussed previously. Grant expense is closely tied to the corresponding provincial funding, whether it be restricted or unrestricted funding.

Grant expense was \$3.9 million (-6%) lower than budget primarily due to the budgeting approach as discussed previously in restricted provincial funding. As grant expense is closely matched to the recognition of the associated restricted provincial funding revenue, similar timing differences are to be expected.

Subcontractor Expense



Subcontractor expenses remained relatively consistent with 2014-15, increasing by \$0.5 million (4%), but exceeding budget by \$6.2 million (80%). This was primarily due to:

- Use of subcontractors in the amount of \$5.0 million to fulfill the large, one-time, and unbudgeted C-FER contract as described in the revenue section of this discussion;
- Increased use of subcontractors in the amount of \$0.6 million for the biodiversity monitoring team. As a result of the milder winters in Alberta, the team was able to perform increased level of monitoring; and
- Approximately \$0.6 million incurred relating to subcontractors for a contract in the Applied Research function which was not originally budgeted.

Other Expenses and Materials and Supplies



For the purposes of this discussion, other expenses include computing supplies and services, travel and hospitality, maintenance & rental (excluding computing), occupancy costs, legal and patent, insurance, telephone and other expenses.

Other expenses and materials and supplies decreased by \$2.6 million (-14%) relative to 2014-15 and was \$6.2 million (-28%) lower than budget due to continued efforts within AITF to constrain discretionary expenditures where possible. This was accomplished by engaging the entire Corporation in prudence toward discretionary spending, monthly monitoring, and strong reforecasting efforts.

Amortization



Amortization expense for 2015-16 was comparable to 2014-15, which is in line with the limited tangible capital asset investment in the year. As discussed in the liquidity and financial position section, investment in tangible capital assets is expected to increase, and as such, an associated increase in amortization is built into the 2016-17 budget.

Directly incurred expenses

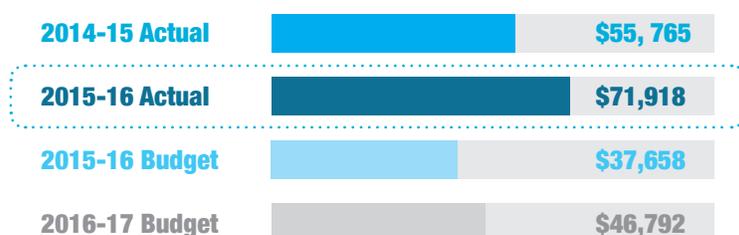


Total expenses can be further broken down into expenses by business function. As shown above, the most significant portion of expenses for 2015-16 is associated with the Applied Research function, followed by Campus Alberta / Basic Research and Commercialization. Expenses for Applied Research declined by \$7.2 million (-7%) to \$97.5 million relative to 2014-15 while expenses for Campus Alberta / Basic Research were consistent with the prior year. Expenses for Applied Research and Campus Alberta / Basic Research were consistent with budgeted amounts.

Total commercialization expense increased in 2015-16 compared to 2014-15 by \$1.2 million (6%) but was \$6.1 million (-22%) below budget. The difference between the 2015-16 budget and actuals was due to a number of factors related to deferral of commercialization grant expenses as discussed previously. The associated restricted funding for these grants has also been deferred to future years.

Liquidity and Financial Position

Cash and Working Capital



AITF's cash position as at March 31, 2016 was \$71.9 million, which was \$16.2 million higher than the cash position as at March 31, 2015 and \$34.3 million higher than budget. This increase was driven primarily by:

- Increase of net deferred revenue of \$6.5 million;
- Increase in cash applied to operating activities of \$9.0 million; and
- Operating surplus in 2015-16 of \$0.9 million

This cash balance comprises three categories of funds: committed funds, pending commitments, and working capital. Committed funds and pending commitments make up the balance of deferred contract revenue and deferred revenue, which is discussed further in this Liquidity and Financial Position section.

- Committed funds are dedicated to specific programs and/or initiatives through legally binding contractual agreements.
- Pending commitments are funds that are expected to be dedicated to specific programs and/or initiatives and are based on business plans. These agreements may be under development or pending signature.
- Working capital is cash not allocated to specific programs or initiatives, and therefore acts as a reserve.

<i>\$ in thousands</i>	2016-17	2017-18	2018-19 Onward	Total	% of Total
Committed Funds	30,485	4,053	150	34,688	48%
Pending Commitments	17,225	3,488	1,070	21,783	31%
Working Capital	15,447	-	-	15,447	21%
Total Cash as at March 31, 2016				\$ 71,918	100%

As shown in the table above, working capital is only 21% of the total balance in AITF's cash balance at \$15.4 million as at March 31, 2016. This is in line with AITF's internal working capital policy, which indicates that a minimum of \$5.0 to \$10.0 million in working capital must be maintained to ensure the sustainable operations of the business.

Detailed break-down of the calculation on net available working capital is shown in the table below.

<i>\$ in thousands</i>	2014-15 Actual	2015-16 Actual	2015-16 Budget	2016-17 Budget
Cash	\$ 55,765	\$ 71,918	\$ 37,658	\$ 46,792
Accounts receivable and other assets ¹	20,804	13,726	23,000	19,000
Receivable from AB Gov't departments and agencies	3,051	1,704	-	-
Accounts payable and accrued liabilities	(14,705)	(15,239)	(15,200)	(15,200)
Deferred contract revenue	(7,681)	(11,062)	(21,100)	(12,450)
Deferred revenue	(42,458)	(45,600)	(13,888)	(27,787)
Net available working capital	\$ 14,776	\$ 15,447	\$ 10,470	\$ 10,355

¹ Balance includes accounts receivable and prepaid expenses less receivable from AB Government departments and agencies.



Working capital as shown above increased moderately in 2015-16 relative to 2014-15 by approximately \$0.7 million and exceeded budget by \$5.0 million. This was primarily due to the restricted provincial funding as discussed previously exceeding budget by \$4.0 million, in which the budget does not incorporate this impact of timing.

Accounts Receivable and Other Assets

Accounts receivable and other assets declined from 2014-15 by \$7.1 million to \$13.7 million and were lower than budget by \$9.3 million due to strong collection efforts in the last quarter of the year. Aging of accounts receivable at year-end shows 12.75% over 90 days (15% in 2014-15).

Provincial Grants Receivable

Provincial grants receivable of \$1.7 million was \$1.3 million lower than 2014-15. AITF does not typically include a budgeted value for provincial grants receivable. Provincial grants receivable is related to grant funding that has been committed by the Province to AITF but has yet to be received. Year over year fluctuations of the receivable balance is expected, due to the timing of when the core funding is received.

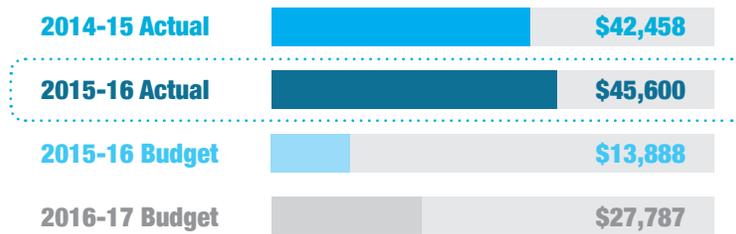
Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities increased slightly by \$0.5 million from \$14.7 million in 2014-15 to \$15.2 million in 2015-16. This number is consistent with the budget.

Deferred Contract Revenue

Deferred contract revenue consists of contract revenue for services not fully rendered as at March 31, 2016. This liability increased by \$3.4 million from \$7.7 million in 2014-15 to \$11.1 million in 2015-16 but was lower than budget by \$10.0 million. Deferred contract revenue will fluctuate year over year, dependent on timing differences, the type of contract work that AITF is engaged in and the milestones and timeframes within each contract.

Deferred Revenue



Deferred revenue increased by \$3.1 million from 2015-16 compared to 2014-15 and was \$31.7 million higher than budget. This deferred revenue represents contractually committed grant funding related to restricted provincial funding as previously discussed in the Revenue section. It is generally associated with Campus Alberta / Basic Research and Commercialization activities and is restricted to the specific programs for which it is granted. Due to the nature of the business, AITF's programs and initiatives – including the development stage – tend to span multiple fiscal year ends. This deferred revenue will be spent in future periods and will be represented by a reduction of cash.

Tangible Capital Assets



Tangible capital assets remained consistent with 2014-15 and budget, as a result of limited investment in the period. Investment in capital assets of \$4.9 million in 2015-16 was consistent with investments of \$4.8 million in 2014-15 and was just slightly over the budgeted investment of \$4.8 million. However, this represents a decrease in capital spending compared to previous years.

While limited investment demonstrates the organization's commitment to exercising fiscal restraint in the near term, increased capital expenditures will be required in future years. A sustained lack of investment in capital comes at a risk to AITF as technological advancement and investment in cutting-edge technology is key to the work AITF's Applied Research business performs. Adequate capital investment is an expectation and requirement of industry customers and is necessary to protect the critical Applied Research capacity established by the Province. To this end, the Ministry of Economic Development and Trade (EDT) has budgeted an annual \$3 million for provincial innovation infrastructure capital maintenance and renewal for the next five years. AITF looks forward to managing the Corporation's annual allocated portion of the \$3 million for critical capital investments required to support industry.

It is important to note AITF's operations encompass over one million square feet of product, process development and scale-up facilities in Edmonton, Calgary, Devon and Vegreville. These facilities are owned and operated by Alberta Infrastructure and are not capitalized on AITF's consolidated statement of financial position. In 2015-16, the accommodation costs incurred by Alberta Infrastructure to maintain these facilities were approximately \$20.4 million (\$20 million in 2014-15). Occupancy costs incurred by AITF in the amount of \$1.9 million (\$1.7 million in 2014-15) were primarily a result of short term rental of lab and off-site space.

Net Assets

Net assets as at 2015-16 were \$46.7 million, \$0.9 million above the net assets at the end of 2014-15 of \$45.8 million and \$4.4 million above the budget. This increase in net assets in 2015-16 is due to the annual operating surplus this year.

Outlook

The recent announcement of the consolidation of the four Alberta Innovates corporations means significant changes will occur for each of the corporations in the coming year. In 2016-17, the single Alberta Innovates Corporation will be developing its structure and operations to deliver on its mandate to generate economic, social and health benefits to Alberta. Centralized access to the new Corporation's streamlined services, funding and supports will result in greater opportunities to enhance delivery of services, reduce redundancies and redirect resources to underserved areas of Alberta's innovation system.

The impact on our stakeholders, partners and clients of the combined 2016-17 base budget reduction of \$45M for the four Alberta Innovates corporations will be mitigated through various strategies specific to the programs of service, funding and support offered.

Enterprise Risk Management

As part of AITF's Enterprise Risk Management process, management actively manages the risks which could adversely impact the ability to deliver on the organization's business plan. The following significant risks were identified by senior management:

Declining revenue streams due to current economic environment from both industry and government clients.

AITF funds its mandate for the Province of Alberta through two revenue streams – contract research for commercial enterprises and government clients, and funding from the Government of Alberta. External contract revenues account for almost a third of the corporation's income, which is highly concentrated with a relatively small number of oil and gas sector clients. During strong economic times this revenue stream enabled AITF to maintain and improve its capacity to provide critical support services to Alberta industry and government. While there is increasing pressure on both revenue streams, the long term nature of research and innovation requires AITF to sustain critical human and infrastructure assets in place. It is management's belief that the province has not likely seen the full impact of the downturn. If the economic decline continues, it will put significant strain on the organization. Over the last year, external contract revenues have declined by approximately 2%, this is despite a large one time contract earned at AITF's wholly owned subsidiary, C-FER Technologies. External contract revenues are budgeted to decline by an additional 20% in the upcoming fiscal year.

POTENTIAL IMPACT: MEDIUM
LIKELIHOOD OF OCCURRENCE: HIGH

Mitigation strategy:

AITF's 2016-19 business plan has been carefully developed, balancing short term fiscal pressures with the long term demands of R&D. Discretionary expenses have been reduced, and additional controls have been put in place to monitor AITF's financial position month to month.

During these challenging times, a strong focus on business development and support of our clients will be maintained. Staff has been encouraged to think of out-of-the box solutions and maintain flexibility, acknowledging current fiscal pressures while still protecting long term outcomes. Our business support for resource based clients has switched towards helping companies come down the cost experience curve.

Aging workforce and succession planning in critical areas

Many AITF staff are highly-specialized in terms of skills and experience which is not easily reproduced or replaced. As a result, hiring decisions must be strategic and candidates must meet the technical requirements of a knowledge-based work environment. Nationally, at the university level STEM (Science Technology Engineering Math) fields represent just 24.5% of all fields of study, 53.5% of earned doctorates (PhDs) and 25.8% among master's degrees in 2016. These statistics demonstrate the limited talent pool for which AITF competes with private industry and other government bodies and agencies. While the current downturn and layoffs has increased the pool of candidates, it is critical to note that highly skilled professionals are also highly mobile. If uncertainty is high in Alberta, and opportunities are seen as being more plentiful in other regions of Canada, or other countries, talent can easily migrate.

POTENTIAL IMPACT: MEDIUM
LIKELIHOOD OF OCCURRENCE: MEDIUM

Mitigation strategy:

Management has actively identified the key positions and individuals whose loss would pose the greatest risk to AITF; the 2016-19 business plan allows for the prudent replacement of key individuals as they choose to retire. The extensive lay-offs in the energy sector in particular may increase the current pool of highly qualified candidates available for recruitment. The organization, in partnership with EDT and Campus Alberta is also looking to adopt flexible work arrangements, which would provide increased opportunities to train and develop new graduates in STEM fields within AITF's Applied Research team.

Coordination of activities within Alberta's innovation system

In the last five years the research and innovation landscape has changed significantly, and increasingly Alberta needs to take an integrated, cross-sectoral approach to respond to complex challenges such as climate change and structural shifts in our energy sector. Increased coordination, amongst system players is needed to drive the outcomes required of the innovation system.

POTENTIAL IMPACT: MEDIUM
LIKELIHOOD OF OCCURRENCE: MEDIUM

Mitigation strategy:

Through the Innovation Collaboratories, significant strides are being made in developing a cross government approach to setting research and innovation priorities, which have been formalized in the Draft 2030 Innovation Targets. These targets will be used by the Alberta Innovates corporations and Campus Alberta to focus activities. While AITF strongly supports the Collaboratory model, AITF recognizes the challenges posed by large group collaboration. As members of their respective Innovation Collaboratories, AITF's Sector Leads will contribute their leadership skills, knowledge and align AITF's resources to the priority areas perceived to have the greatest game-changing value for Albertans. Sector leaders and management are held accountable to outcomes by AITF's independent Board of Directors. The newly announced consolidation of the four Alberta Innovates Corporations, will significantly contribute to improved coordination and collaboration within Alberta's innovation system.

Aging capital and technology infrastructure

AITF operates over one million square feet of product and process development and scale-up facilities in Edmonton, Calgary, Devon and Vegreville. This includes a 300 hectare research farm, three greenhouses, and 36 growth chambers. In addition to our facilities, AITF also possesses a substantial inventory of research equipment with an estimated replacement asset value of about \$100 million. The purpose of our facilities and capital assets is to accelerate the adoption of innovation and new technology into our primary sectors, which leads to improved competitiveness and financial performance of Alberta industry. However, as detailed in our Capital Plan, AITF has limited sources of capital and is heavily dependent on the Government of Alberta for capital funding to maintain the required facilities and infrastructure for the Applied Research side of our business. With the current economic downturn, management has made the strategic decision to under invest in capital in the current year, with an eye to reversing this trend in the near future. It is critical to note, such actions are not without significant downside. When capital investment is short-term oriented, and focused on the maintenance of current capacity, it limits AITF's ability to provide meaningful, and game-changing R&D support to Alberta businesses.

POTENTIAL IMPACT: MEDIUM
LIKELIHOOD OF OCCURRENCE: MEDIUM

Mitigation strategy:

AITF in partnership with the Collaboratories and EDT will work to determine priority areas for Applied Research capital maintenance and investment. Management will actively advocate for and ensure current capital supports these strategies and is funded accordingly. A long term Planned Capital Expenditure Plan and replacement strategy will be initiated to ensure AITF's technological and physical assets remain relevant in the market place.

6 Audited Consolidated Financial Statements

March 31, 2016

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Management's Responsibility for Reporting Statement

Responsibility for the integrity and objectivity of the financial statements for Alberta Innovates – Technology Futures (AITF) rests with the Board of Directors. Under the direction of the Board of Directors, we oversee the preparation of AITF's financial statements. The financial statements include amounts that are based on estimates and judgments. The financial statements are prepared in accordance with Canadian public sector accounting standards.

AITF's management is responsible for the preparation, accuracy, objectivity and integrity of the information contained in the annual report including the financial statements, performance results and supporting management information. Systems of internal control are designed and maintained to produce reliable information that meet reporting requirements, and to ensure that transactions are executed in accordance with all relevant legislation, regulations and policies, reliable financial records are maintained, and assets are properly accounted for and safeguarded.

The Auditor General of Alberta, the corporation's external auditor appointed under the *Auditor General Act*, performs an annual independent audit of AITF's financial statements in accordance with Canadian generally accepted auditing standards.



Cory Fries
Interim CEO
Alberta Innovates – Technology Futures



Denis Plumb, CPA, CMA
Vice President, Finance
Alberta Innovates – Technology Futures

Auditor's Report



Independent Auditor's Report

To the Board of Directors of Alberta Innovates-Technology Futures

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of Alberta Innovates—Technology Futures, which comprise the consolidated statement of financial position as at March 31, 2016, and the consolidated statements of operations, change in net financial assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Alberta Innovates—Technology Futures as at March 31, 2016, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Merwan N. Sakher FCPA, FCA

Auditor General
May 31, 2016
Edmonton, Alberta

Consolidated Statement of Financial Position

As At March 31, 2016
(dollars in thousands)

	2016	2015
Financial Assets		
Cash (Note 5)	\$ 71,918	\$ 55,765
Accounts Receivable (Note 6)	14,543	19,600
	86,461	75,365
Liabilities		
Accounts Payable and Accrued Liabilities (Note 7)	15,239	14,705
Deferred Contract Revenue (Note 8)	11,062	7,681
Deferred Revenue (Note 8)	45,600	42,458
	71,901	64,844
Net Financial Assets	14,560	10,521
Non-Financial Assets		
Tangible Capital Assets (Note 9)	31,212	31,022
Prepaid Expenses	887	4,255
	32,099	35,277
Net Assets		
Accumulated Surplus	\$ 46,659	\$ 45,798

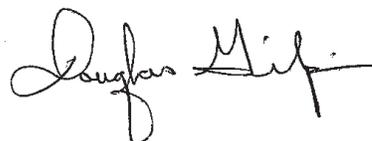
Contractual Liabilities and Contractual Obligations (Notes 10 and 11)

The accompanying notes and schedules are part of these consolidated financial statements.

Approved by the Board of Directors



Judy Fairburn
Board Chair



Doug Gilpin
Director and Chair of the Audit Committee

Consolidated Statement of Operations

For the year ended March 31, 2016
(dollars in thousands)

	2016 Budget	2016 Actual	2015 Actual
Revenues			
Government Transfers			
Government of Alberta Grants	\$ 41,722	\$ 40,422	\$ 41,940
Restricted Provincial Grants	55,678	50,667	43,498
Other Provincial Funds	10,230	11,217	10,407
External Contract Revenue	50,046	54,556	55,614
Contract Revenue from Province of Alberta	4,077	4,032	3,495
Product Sales	2,731	1,746	4,375
Investment Income	790	479	870
	165,274	163,119	160,199
Expenses – Directly Incurred (Note 2 (b)(iv) and Schedule 1)			
Applied Research	96,643	97,515	104,736
Basic Research	44,789	43,464	43,286
Commercialization	27,359	21,279	20,089
	168,791	162,258	168,111
Annual (Deficit) Surplus	(3,517)	861	(7,912)
Accumulated Surplus, Beginning of year	45,798	45,798	53,710
Accumulated Surplus, End of year	\$ 42,281	\$ 46,659	\$ 45,798

The accompanying notes and schedules are part of these consolidated financial statements.

Consolidated Statement of Change in Net Financial Assets

For the year ended March 31, 2016

(dollars in thousands)

	2016 Budget	2016 Actual	2015 Actual
Annual (Deficit) Surplus	\$ (3,517)	\$ 861	\$ (7,912)
Acquisition of Tangible Capital Assets	(4,796)	(4,932)	(4,847)
Amortization of Tangible Capital Assets	5,258	4,684	4,613
Loss on Disposal of Tangible Capital Assets	-	36	16
Proceeds on Sale of Tangible Capital Assets	-	22	41
Writedown of Tangible Capital Assets	-	-	38
Change in Prepaid Expenses	-	3,368	(3,483)
(Decrease) Increase in Net Financial Assets in the Year	(3,055)	4,039	(11,534)
Net Financial Assets, Beginning of Year	10,521	10,521	22,055
Net Financial Assets, End of Year	\$ 7,466	\$ 14,560	\$ 10,521

The accompanying notes and schedules are part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended March 31, 2016
(dollars in thousands)

	2016	2015
Operating Transactions		
Annual Surplus (Deficit)	\$ 861	\$ (7,912)
Non-Cash Items:		
Amortization of Tangible Capital Assets	4,684	4,613
Deferred Revenue Recognized as Revenue	(102,348)	(95,967)
Loss on Disposal of Tangible Capital Assets	36	16
Impairment of Tangible Capital Assets	-	38
	(96,767)	(99,212)
Decrease (Increase) in Accounts Receivable	5,057	(3,830)
Decrease (Increase) in Prepaid Expenses	3,368	(3,483)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	534	(4,877)
Increase (Decrease) in Deferred Contract Revenue	3,381	(285)
Increase in Deferred Revenue	105,490	101,984
Cash Provided by (Applied to) Operating Transactions	21,063	(9,703)
Capital Transactions		
Acquisition of Tangible Capital Assets	(4,932)	(4,847)
Proceeds on Sale of Tangible Capital Assets	22	41
Cash Applied to Capital Transactions	(4,910)	(4,806)
Increase (Decrease) in Cash	16,153	(14,509)
Cash, Beginning of Year	55,765	70,274
Cash, End of Year	\$ 71,918	\$ 55,765

The accompanying notes and schedules are part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

Year ended March 31, 2016

NOTE 1 AUTHORITY AND PURPOSE

Alberta Innovates - Technology Futures (the Corporation) is a Provincial Corporation, as defined in the Financial Administration Act, that was established on January 1, 2010 and operates under the authority of the *Alberta Research and Innovation Act*. The objects of the Corporation are to support, for the economic and social well-being of Albertans, research and innovation activities targeted at the development and growth of technology-based sectors and aligned to Government of Alberta priorities, including, without limitation, activities directed at the commercialization of technology and the application of knowledge.

The Corporation is exempt from Canadian federal and Alberta provincial income taxes.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards.

a) Reporting Entity and Method of Consolidation

These consolidated financial statements reflect the assets, liabilities, revenue and expenses of the Corporation and its wholly owned subsidiary, C-FER Technologies (1999) Inc. All intercompany balances and transactions have been eliminated on consolidation.

b) Basis of Financial Reporting

i) Revenue Recognition

All revenues are reported on the accrual basis of accounting. Cash received for which goods or services have not been provided by year end is recorded as deferred revenue. Externally restricted revenue is recognized as revenue in the period in which the resources are used for the purpose specified. Funds received prior to meeting the criteria are recorded as deferred revenue until the resources are used for the purpose specified.

ii) Government Transfers

Transfers from the Government of Alberta, federal and other governments are referred to as government transfers.

Government transfers are recorded as deferred revenue if the terms for use of the transfer, or the terms along with the Corporation's actions and communications as to the use of the transfer, create a liability. These transfers are recognized as revenue as the terms are met and, when applicable, the Corporation complies with its communicated use of the transfer.

All other government transfers, without terms for the use of the transfer, are recorded when the transfer is authorized and the Corporation meets the eligibility criteria (if any).

iii) Contract and Other Revenue

Contract revenue is recognized using the percentage of completion method. The Corporation makes full provision for all known or estimated losses on uncompleted contracts as soon as they can reasonably be estimated.

Revenue from product sales is recognized when products are delivered.

Investment income earned from restricted sources where specified in the related agreements are deferred and recognized when the terms imposed have been met.

iv) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year are expensed.

Transfers include entitlements, grants and transfers under shared cost agreements. Grants and transfers are recorded as expenses when the transfer is authorized and eligibility criteria have been met by the recipient.

v) Valuation of Financial Assets and Liabilities

The Corporation's financial assets and liabilities are generally measured as follows:

Financial Statement Component	Measurement
Cash	Cost
Accounts Receivable	Lower cost or net recoverable value
Accounts Payable and Accrued Liabilities	Cost

The Corporation has no assets or liabilities in the fair value category, has not engaged in foreign currency transactions and has no remeasurement gains or losses. Consequently, no statement of remeasurement gains and losses has been presented.

vi) Financial Assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations.

Financial assets of the Corporation are limited to financial claims, such as advances to and receivables from other organizations, employees and other individuals.

Consolidated Cash Investment Trust Fund (CCITF) is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years.

Accounts receivable are recorded at the lower of cost or net recoverable value. A valuation allowance is recorded when recovery is uncertain.

vii) Liabilities

Liabilities represent present obligations of the Corporation to external organizations and individuals arising from transactions or events occurring before the year end. They are recorded when there is an appropriate basis of measurement and management can reasonably estimate the amount.

Liabilities also include:

- all financial claims payable by the Corporation at the year end; and
- accrued employee vacation entitlements.

Liability for Contaminated Sites

Contaminated sites are a result of contamination of a chemical, organic or radioactive material or live organism that exceeds an environmental standard, being introduced into soil, water or sediment. The liability is recorded net of any expected recoveries. A liability for remediation of contaminated sites is recognized when all of the following criteria are met:

- i. an environmental standard exists;
- ii. contamination exceeds the environmental standard;
- iii. the Corporation is directly responsible or accepts responsibility;
- iv. it is expected that future economic benefits will be given up; and
- v. a reasonable estimate of the amount can be made.

viii) Non Financial Assets

Non-financial assets are limited to tangible capital assets and prepaid expenses.

Tangible Capital Assets

Tangible capital assets of the Corporation are recorded at historical cost, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets. Tangible capital assets are amortized on a straight-line basis over the estimated useful life of the assets. The threshold for capitalizing new systems development is \$100,000 and the threshold for major systems enhancements is \$25,000. The threshold for all other tangible capital assets is \$5,000. All land is capitalized.

Donated tangible capital assets are recorded at their fair value at the time of contribution. Fair value is defined as the amount of consideration that would be agreed upon in an arms length transaction between knowledgeable, willing parties who are under no compulsion to act. Amortization is only charged if the asset is in use.

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Corporation's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value.

Prepaid Expenses

Prepaid expenses are recorded at cost and amortized based on the terms of the agreement.

ix) Financial Risk Management

The Corporation's financial instruments include cash, accounts receivable and accounts payable and accrued liabilities. The Corporation is not involved in any hedging relationships through its operations and does not hold or use any derivative financial instruments for trading purposes.

The Corporation's financial instruments are exposed to credit risk, market risk and liquidity risk.

a) *Credit Risk*

Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. The Corporation's accounts receivable are exposed to credit risk. Management manages this risk by continually monitoring the creditworthiness of counterparties and by dealing with counterparties that it believes are creditworthy.

b) *Market Risk*

Market risk is the risk of loss from unfavourable change in fair value or future cash flows of a financial instrument causing financial loss. Market risk is comprised of currency risk, interest rate risk and price risk. The Corporation's cash is exposed to interest rate risk. Management manages this risk by continually monitoring the Corporation's deposits in the Consolidated Cash Investment Trust Fund (CCITF) and their corresponding rate of return.

c) *Liquidity Risk*

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they fall due. The Corporation's accounts payable and accrued liabilities are exposed to liquidity risk. Management manages this risk by continually monitoring cash flows.

It is management's opinion that the Corporation is not exposed to significant credit risk, market risk and liquidity risk arising from its financial instruments.

x) *Employee Future Benefits*

The Corporation participates in multi-employer defined benefit pension plans with related government entities that provide pensions for the Corporation's participating employees based on years of service and earnings. The Corporation does not have sufficient plan information on these pension plans to follow the standards for defined benefit accounting, and therefore follows the standards for defined contribution accounting. Accordingly, pension costs included in these consolidated financial statements are comprised of the cost of the employer contributions for the current service period of employees during the year and additional employer contributions for service relating to prior years.

The Corporation operates a defined contribution pension plan. Pension costs included in these consolidated financial statements are comprised of the cost of employer contributions for the current service of employees during the year. There are no unfunded liabilities with respect to pension and pension costs.

xi) *Measurement Uncertainty*

The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these consolidated financial statements requires the use of estimates, which may vary from actual results. Management uses judgment to determine such estimates. In management's opinion, the resulting estimates are within reasonable limits of materiality and are in accordance with the significant accounting policies.

c) *Change in Accounting Policy*

Adoption of the Net Debt Presentation

The net debt presentation (with reclassification of comparatives) has been adopted for the presentation of the consolidated financial statements. Net debt or net financial assets is measured as the difference between the Corporation's financial assets and liabilities.

A net financial assets balance indicates the extent of the Corporation's government transfers and operating revenues to net assets resulting from settlement of its financial assets and liabilities.

The effect of this change results in changing the presentation of the Statement of Financial Position and adding the Statement of Change in Net Financial Assets.

NOTE 3 FUTURE ACCOUNTING CHANGES

In June 2015 the Public Sector Accounting Board issued the following accounting standards:

- **PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions (effective April 1, 2017)**
PS 2200 defines a related party and establishes disclosures required for related party transactions; PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective. Management is currently assessing the impact of these standards on the consolidated financial statements.
- **PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights (effective April 1, 2017)**
PS 3210 provides guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and establishes general disclosure standards for assets; PS 3320 defines and establishes disclosure standards on contingent assets; PS 3380 defines and establishes disclosure standards on contractual rights. Management is currently assessing the impact of these standards on the consolidated financial statements.
- **PS 3430 Restructuring Transactions (effective April 1, 2018)**
This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities. Management is currently assessing the impact of these standards on the consolidated financial statements.

NOTE 4 BUDGET

(in thousands)

A business plan with a budgeted deficit of \$3,517 was approved by the Board on March 25, 2015 and the full financial plan was submitted to the Minister of Advanced Education, the Minister responsible for the Corporation. This responsibility was transferred to the Minister of Economic Development and Trade effective April 1, 2015 as announced on October 22, 2015. The budget reported in the statement of operations reflects the \$3,517 deficit.

NOTE 5 CASH

(in thousands)

Cash in the amount of \$71,918 (2015 - \$55,765) includes deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta amounting to \$67,205 (2015 - \$53,223). The CCITF is managed with the objective of providing competitive investment income to depositors while maintaining appropriate security and liquidity of depositors' capital. As at March 31, 2016, \$44,064 of the cash balance is restricted as it represents grants received that have restrictions on their use (2015 - \$39,459).

As at March 31, 2016, securities held by AITF had a time-weighted rate of return of 0.8% per annum (2015 - 1.2% per annum). Due to the short-term nature of the CCITF investments, the carrying value approximates fair value.

NOTE 6 ACCOUNTS RECEIVABLE

(in thousands)

	2016			2015
	Gross Amount	Allowance for Doubtful Accounts	Net Realizable Value	Net Realizable Value
Accounts receivable	\$ 9,150	\$ 555	\$ 8,595	\$ 10,989
Alberta Government Departments and Agencies	1,704	-	1,704	3,051
Accrued income receivable	4,244	-	4,244	5,560
	\$ 15,098	\$ 555	\$ 14,543	\$ 19,600

Accounts receivable are unsecured, non-interest bearing and reported at their estimated net realizable value.

NOTE 7 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(in thousands)

	2016	2015
Accounts Payable and Accrued Liabilities	\$ 15,071	\$ 14,653
Alberta Government Departments and Agencies	168	52
	\$ 15,239	\$ 14,705

NOTE 8 DEFERRED CONTRACT REVENUE/DEFERRED REVENUE

(in thousands)

	2016	2015
Deferred Contract Revenue	\$ 11,062	\$ 7,681
Deferred Revenue (a)	45,600	42,458
	\$ 56,662	\$ 50,139
(a) Deferred revenue		
	2016	2015
Balance, beginning of year	\$ 42,458	\$ 36,441
Grant received – Government of Alberta	105,448	101,862
Investment income received	42	122
Recognized as revenue:		
Government of Alberta Grants	(102,306)	(95,845)
Interest Income	(42)	(122)
Balance, end of year	\$ 45,600	\$ 42,458

Deferred contract revenue represents unexpended, externally restricted funds. Deferred revenue represents unrecognized government transfers.

NOTE 9 TANGIBLE CAPITAL ASSETS

(in thousands)

	Land	Building & Improvements	Equipment ^(a)	Computer Hardware	2016 Total	2015 Total
Estimated Useful Life	Indefinite	25-30 years	5-20 years	3 years		
Historical Cost						
Beginning of year (b)	\$ 566	\$ 8,914	\$ 63,208	\$ 8,148	\$ 80,836	\$ 76,353
Additions	-	232	3,773	927	4,932	4,847
Disposals	-	(44)	(4,803)	(1,368)	(6,215)	(364)
	\$ 566	\$ 9,102	\$ 62,178	\$ 7,707	\$ 79,553	\$ 80,836
Accumulated Amortization						
Beginning of year	\$ -	\$ 2,764	\$ 42,885	\$ 4,165	\$ 49,814	\$ 45,470
Amortization expense	-	494	3,410	780	4,684	4,613
Effect of disposals	-	(44)	(4,744)	(1,369)	(6,157)	(269)
	\$ -	\$ 3,214	\$ 41,551	\$ 3,576	\$ 48,341	\$ 49,814
Net Book Value at End of Year	\$ 566	\$ 5,888	\$ 20,627	\$ 4,131	\$ 31,212	
Net Book Value at Beginning of Year (b)	\$ 566	\$ 6,150	\$ 20,323	\$ 3,983		\$ 31,022

(a) The net book value of capital assets under construction that are not currently being amortized is \$1,071 (2015 - \$2,992).

(b) Opening balance figures have been reclassified.

NOTE 10 CONTINGENT LIABILITIES

(in thousands)

The Corporation has been named as defendant in 2 (2015 – nil) specific legal actions. The total claimed in one legal action is approximately \$432 (2015 - \$0). For the other legal action no specified amount has yet been claimed. The resulting loss from these claims, if any, cannot be determined.

NOTE 11 CONTRACTUAL OBLIGATIONS

(in thousands)

Contractual obligations are obligations of the Corporation to others that will become liabilities in the future when the terms of those contracts or agreements are met.

	2016	2015
Obligations under:		
Operating Leases	\$ 4,087	\$ 5,353
Grants	53,985	79,106
	\$ 58,072	\$ 84,459

Estimated payment requirements for each of the next five years are as follows:

Obligations Under Operating Leases and Grants

	Operating Leases	Grants	Total
2016-17	\$ 1,371	\$ 31,821	\$ 33,192
2017-18	1,291	17,453	18,744
2018-19	1,202	3,311	4,513
2019-20	223	400	623
2020-21	-	400	400
Thereafter	-	600	600
	\$ 4,087	\$ 53,985	\$ 58,072

The Corporation had one Letter of Credit in the amount of \$908 to a key customer outstanding at March 31, 2016.

NOTE 12 BENEFIT PLANS

(in thousands)

The Corporation participates in the multi-employer pension plans: Management Employees Pension Plan (MEPP), the Public Service Pension Plan (PSPP), as well as, a Supplementary Pension Plan (SRP) for Public Service Managers. The Corporation does not have sufficient plan information on MEPP, PSPP or the SRP to follow the standards for defined benefit accounting and therefore follows the standard for defined contribution accounting. Accordingly, pension expense recorded for the PSPP/SRP/MEPP is comprised of employer contributions to the plan that are required for its employees during the year; the expense for these pension plans is equivalent to the annual contributions of \$5,754 for the year ended March 31, 2016 (2015 – \$6,214).

At December 31, 2015, the Management Employees Pension Plan reported a surplus of \$299,051 (2014 – surplus \$75,805), the Public Service Pension Plan reported a deficiency of \$133,188 (2014 – deficiency \$803,299) and the Supplementary Retirement Plan for Public Service Managers reported a deficiency of \$16,305 (2014 – deficiency \$17,203). The Corporation is not responsible for future funding of the plan deficit other than through contribution increases.

NOTE 13 SUBSEQUENT EVENTS

On April 14, 2016, the Government of Alberta announced the consolidation of the four Alberta Innovates corporations, BIO Solutions, Technology Futures, Energy and Environmental Solutions, and Health Solutions into one, along with a wholly owned subsidiary corporation to provide specialized applied research services. Government will introduce legislation later in 2016 to legally create the new entity. Until then, each of the four existing corporations will retain their legal identity.

As the four Alberta Innovates corporations are still legal entities until legislation to create the new corporation is passed and in force during fiscal 2016-2017, the Lieutenant Governor in Council has appointed a new Board of Directors to serve for all four of the Alberta Innovates corporations.

This consolidation will have a significant financial impact on future operations of the four Corporations but an estimate of the financial impact cannot be made at this time.

NOTE 14 COMPARATIVE FIGURES

Certain 2015 figures have been reclassified to conform to the 2016 presentation.

NOTE 15 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Board of Directors on May 31, 2016.

Schedule 1 – Expenses Detailed by Object

For the year ended March 31, 2016
 (dollars in thousands)

	2016 Budget	2016 Actual	2015 Actual
Salaries, Wages & Employee Benefits	\$ 69,889	\$ 67,781	\$ 74,901
Grants	63,517	59,622	56,344
Supplies & Services	30,127	30,171	32,253
Amortization of Tangible Capital Assets	5,258	4,684	4,613
	\$ 168,791	\$ 162,258	\$ 168,111

Schedule 2 – Salary and Benefits Disclosure

For the year ended March 31, 2016
(dollars in thousands)

	2016			Total	2015
	Base Salary ⁽¹⁾	Other Cash Benefits ⁽²⁾	Other Non-Cash Benefits ⁽³⁾		Total
Chair of the Board	\$ -	\$ 39	\$ -	\$ 39	\$ 33
Board Members	-	86	-	86	86
Chief Executive Officer	346	82	11	439	485
Vice Presidents:					
Executive Vice President ⁽⁴⁾	251	222	9	482	437
Vice President, Finance ⁽⁵⁾	204	158	55	417	236
Vice President, Food & Agriculture ⁽⁶⁾	125	-	6	131	248
Vice President, Health ⁽⁷⁾	223	134	10	367	285
Vice President, Investments & Legal	241	59	13	313	345
Vice President, Oil & Gas ⁽⁸⁾	211	-	34	245	246
Vice President, Organizational Effectiveness ⁽⁹⁾	252	116	8	376	181
Vice President, Science ⁽¹⁰⁾	-	-	-	-	369
Vice President, Communications ⁽¹¹⁾	-	-	-	-	341
Vice President, Pipeline ⁽¹²⁾	-	-	-	-	289
CFO and Vice President Finance and Administration ⁽¹³⁾	-	-	-	-	457

(1) Base salary includes regular salary.

(2) "Other cash benefits include honoraria for the Chair and Board Members. Other cash benefits for the Chief Executive Officer and Vice Presidents include vacation payouts, car and living allowance, payments in lieu of pension and lump sum amounts. Also included in other cash benefits for the year ended March 31, 2016 is \$370 in termination benefits paid/payable as a result of termination agreements.

(3) Other non-cash benefits include employee benefits and contributions or payments made on behalf of employees including pension and supplementary retirement plan, employee health care expense accounts, dental coverage, major medical, group life insurance, short term disability plan, Workers Compensation Board premiums (estimated) and professional memberships.

(4) Executive Vice President position was vacated January 31, 2016.

(5) Vice President, Finance position was effective May 26, 2014.

(6) Vice President, Food & Agriculture moved to part time effective April 1, 2015.

(7) Vice President, Health position was vacated March 17, 2016.

(8) Vice President, Oil & Gas position was effective May 26, 2014.

(9) Vice President, Organizational Effectiveness position was effective August 25, 2014 and vacated March 18, 2016.

(10) Vice President, Science position was seconded from the University of Alberta and was vacated March 31, 2015.

(11) Vice President, Communications position was vacated February 20, 2015.

(12) Vice President, Pipeline position was vacated January 1, 2015.

(13) CFO and Vice President Finance and Administration position was vacated June 27, 2014.

Schedule 3 – Related Party Transactions

For the year ended March 31, 2016
(dollars in thousands)

Related parties are those entities consolidated or accounted for on the modified equity basis in the Government of Alberta's financial statements. Related parties also include key management personnel in the Corporation. The Corporation and its employees paid or collected certain taxes and fees set by regulation for premiums, licenses and other charges. These amounts were incurred in the normal course of business, reflect changes applicable to all users, and have been excluded from this Schedule.

As a result of government reorganization on October 22, 2015, responsibility for the Corporation was transferred from the ministry of Advanced Education to the ministry of Economic Development and Trade. Comparatives for 2015 have been restated as if the ministry had always been assigned its current responsibilities.

The Corporation had the following transactions with related parties recorded in the Consolidated Statement of Operations and the Consolidated Statement of Financial Position at the amount of consideration agreed upon between the related parties:

	Entities in the Ministry		Other Entities Outside of the Ministry	
	2016	2015 (Restated)	2016	2015 (Restated)
Revenues				
Grants	\$ 99,076	\$ 92,845	\$ 3,230	\$ 3,000
Contract Revenue	259	335	3,773	3,160
	\$ 99,335	\$ 93,180	\$ 7,003	\$ 6,160
Expenses				
Grants	\$ 100	\$ -	\$ 28,845	\$ 38,894
Other Services	(25)	-	883	1,585
	\$ 75	\$ -	\$ 29,728	\$ 40,479
Receivable from	\$ 548	\$ 2,400	\$ 1,156	\$ 651
Payable to	\$ -	\$ -	\$ 168	\$ 52
Deferred Contract Revenue	\$ 5	\$ 5	\$ 750	\$ 427
Deferred Revenue	\$ 45,475	\$ 42,458	\$ 125	\$ -
Contractual Obligations	\$ -	\$ -	\$ 39,630	\$ 57,735

Schedule 3 – Related Party Transactions (Cont'd)

The above transactions do not include support service arrangement transactions disclosed below.

The Corporation also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the consolidated financial statements. Accommodation expenses incurred by others are disclosed in Schedule 4.

Expenses – Incurred by Others	Other Entities Outside of the Ministry	
	2016	2015
Accommodation ⁽¹⁾	\$ 20,418	\$ 19,997
	\$ 20,418	\$ 19,997

(1) The Corporation's share of accommodation costs is based on the proportion of space occupied compared to the total space occupied by all Ministries.

Schedule 4 – Allocated Costs

For the year ended March 31, 2016
(dollars in thousands)

Program	2016			2015
	Expenses – Incurred by Others			
	Accommodation			
	Expenses (a)	Costs (b)	Total Expenses	Total Expenses
Applied Research	\$ 97,515	\$ 19,804	\$ 117,319	\$ 124,084
Basic Research	43,464	266	43,730	43,602
Commercialization	21,279	348	21,627	20,422
	\$ 162,258	\$ 20,418	\$ 182,676	\$ 188,108

(a) Expenses – Directly Incurred as per Consolidated Statement of Operations.

(b) Accommodation costs incurred by others have been allocated based upon full-time equivalent staff.

Appendix A – Statutory Report

Section 32 of the Public Interest Disclosure Act requires the Corporation to report annual on the following parts of the Act:

- The number of disclosures received by the designated officer of the Public Interest Disclosure Office, number of disclosures acted on and the number of disclosures note acted on by the designated officer;
- The number of investigations commenced by the designated officer as a result of disclosures;
- In the case of an investigation that results in a finding of wrongdoing, a description of the wrongdoing and any recommendations made or corrective measures taken in relation to the wrongdoing or the reasons why no corrective measure was taken.

In relation to the reporting requirements under section 32 of the Public Interest Disclosure (Whistleblower Protection) Act, for the period of April 1, 2015 to March 31, 2016, there was one disclosure received by the designated officer of the Public Interest Commissioner. As a result, an investigation was completed and the Public Interest Commissioner made the following findings:

- It was determined on one occasion, one AITF employee manipulated the procurement process, thereby committing a gross mismanagement of a public asset in contravention of section 3(1)(c) of the Act; and
- It was determined that the AITF manager knowingly directed or counselled an individual to commit a wrongdoing contrary to section 3(1)(d) of the Act.

Corrective measures that the Corporation has taken to address the wrongdoings include:

- Examination and modification of existing procurement procedures related to the procurement of goods and services in open competition;
- Implementation of training on a case by case basis in the modified procurement procedures;
- Implementation of documentation retention procedures to promote continuity and safekeeping of all procurement documents is centralised with the Material Management department;
- Implementation of an evaluation and selection audit schedule with respect to the procurement files to ensure compliance with the procurement procedures; and
- Disciplinary action was considered with respect to the AITF employee and manager involved in the wrongdoings; however such individuals were no longer employed by the Corporation.

AITF's Mandate

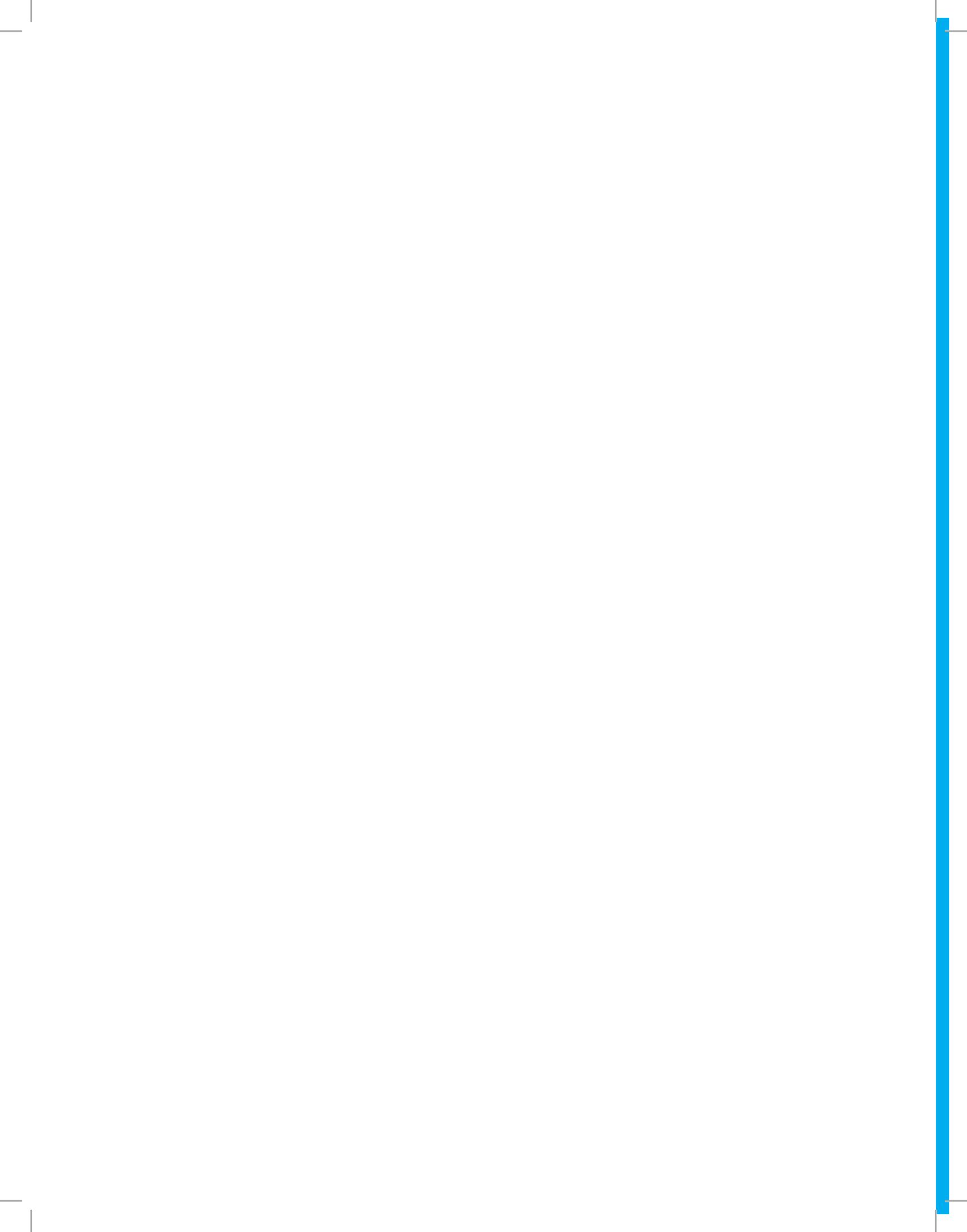
Alberta Innovates – Technology Futures is an integral part of Alberta Innovates – a strategically aligned and integrated provincial research and innovation system. Under the banner of Alberta Innovates, the corporation works with key innovation support agencies, with publicly funded post-secondary institutions, industry and government to further research and innovation in the province and make Alberta more competitive in the global economy.

The Government of Alberta has given the Corporation the following responsibilities:

- Support, for the economic and social well-being of Albertans, research and innovation activities targeted at the development and growth of technology-based sectors and aligned to Government of Alberta priorities, including, without limitation, activities directed at the commercialization of technology and the application of knowledge.
- Meet the research and innovation priorities of the Government in the following areas or in a combination of the areas:
 - food-agriculture
 - fibre/bio-industrial
 - energy
 - environment
 - health
 - any other area determined under the regulations
- Foster the development and growth of new and existing industries through research and innovation

AITF will create value through:

- Increased effectiveness and integration of planning, funding and service delivery
- Alignment of programs and investments toward priority areas and outcomes
- Improved coordination between business, technical and networking services
- Increased program and investment focus on commercialization and product development
- Improved facilitation of knowledge, intellectual property (IP) and skill transfer within the system, and between academia, industry and government
- Improved accountability and outcomes through integrated performance monitoring and continuous improvement processes



The first part of the document discusses the importance of maintaining accurate records in a business setting. It highlights how proper record-keeping can help in decision-making, legal compliance, and financial management. The text emphasizes that records should be organized, up-to-date, and easily accessible.

Next, the document addresses the challenges of data management in the digital age. It notes that while digital storage offers convenience, it also introduces risks such as data loss, security breaches, and information overload. Solutions like cloud storage, encryption, and regular backups are suggested to mitigate these risks.

The third section focuses on the role of technology in record management. It explores how software solutions can streamline processes, reduce errors, and improve collaboration. The text mentions various tools and platforms that offer automated record-keeping and reporting features.

Finally, the document concludes by stressing the long-term value of a robust record-keeping system. It states that consistent and accurate records are essential for the growth and sustainability of any organization. The text encourages businesses to invest in the right tools and training to ensure their records are reliable and secure.

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