

IISD Experimental Lakes Area Inc.

Financial statements
March 31, 2020



Independent auditor's report

To the Member of
IISD Experimental Lakes Area Inc.

Opinion

We have audited the financial statements of **IISD Experimental Lakes Area Inc.** [the "Organization"], which comprise the statement of financial position as at March 31, 2020, and the statement of operations and changes in unrestricted net operating surplus, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at March 31, 2020, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for opinion

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

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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



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

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

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

Winnipeg, Canada
June 23, 2020

Ernst & Young LLP

Chartered Professional Accountants



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IISD Experimental Lakes Area Inc.

Statement of financial position

As at March 31

	2020	2019
	\$	\$
Assets		
Current		
Cash and cash equivalents	1,185,596	502,251
Restricted cash <i>[note 3]</i>	524,377	513,057
Current portion of grants receivable <i>[note 4]</i>	961,750	1,194,700
Accounts receivable	62,046	95,682
Prepaid expenses	132,500	44,384
Total current assets	2,866,269	2,350,074
Grants receivable <i>[note 4]</i>	541,413	260,000
Investments <i>[note 5]</i>	952,109	990,019
Capital assets, net <i>[note 6]</i>	967,218	968,640
Intangible assets	28,584	25,985
	5,355,593	4,594,718
Liabilities and net assets		
Current		
Accounts payable and accrued liabilities <i>[note 7]</i>	452,016	294,569
Due to International Institute for Sustainable Development <i>[note 14]</i>	24,859	22,435
Current portion of deferred contributions <i>[note 8]</i>	1,380,427	1,034,174
Total current liabilities	1,857,302	1,351,178
Deferred contributions <i>[note 8]</i>	441,811	584,066
Deferred capital contributions <i>[note 9]</i>	801,984	818,422
Total liabilities	3,101,097	2,753,666
Commitments <i>[note 10]</i>		
Net assets		
Net assets invested in capital assets	150,970	122,991
Sustainable Future Fund <i>[note 11]</i>	800,000	800,000
Remediation fund <i>[note 3]</i>	524,377	513,057
Unrestricted net operating surplus	779,149	405,004
Total net assets	2,254,496	1,841,052
	5,355,593	4,594,718

See accompanying notes

On behalf of the Board:



Director



Director

IISD Experimental Lakes Area Inc.

**Statement of operations and changes in
unrestricted net operating surplus**

Year ended March 31

	2020	2019
	\$	\$
Revenue <i>[note 15]</i>		
Designated grants <i>[notes 8 and 14]</i>	4,300,869	3,913,578
Sustainable Future Fund <i>[notes 8 and 11]</i>	2,176	5,769
Donations – unrestricted	93,452	70,430
Amortization of deferred capital contributions <i>[note 9]</i>	115,044	119,706
Other <i>[note 14]</i>	351,316	463,139
Investment income <i>[note 14]</i>	31,159	13,899
	4,894,016	4,586,521
Expenses		
Field station operations	939,847	1,002,700
Field research <i>[note 14]</i>	1,875,365	1,685,969
Administration <i>[note 14]</i>	762,214	851,682
Marketing and fundraising <i>[note 14]</i>	170,856	198,884
Outreach and education <i>[note 14]</i>	408,713	338,993
Laboratory research	75,394	89,492
Offsite research and technical review <i>[note 14]</i>	248,183	97,210
	4,480,572	4,264,930
Excess of revenue over expenses for the year	413,444	321,591
Appropriation from and to unrestricted net operating surplus		
Change in net assets invested in remediation fund <i>[note 3]</i>	(11,320)	(8,620)
Change in net assets invested in capital assets <i>[note 12]</i>	(27,979)	60,713
Increase in unrestricted net operating surplus	374,145	373,684
Unrestricted net operating surplus, beginning of year	405,004	31,320
Unrestricted net operating surplus, end of year	779,149	405,004

See accompanying notes

IISD Experimental Lakes Area Inc.

Statement of changes in net assets

Year ended March 31

	2020				2019	
	Net assets invested in capital assets \$ <i>[note 12]</i>	Sustainable Future Fund \$ <i>[note 11]</i>	Remediation fund \$ <i>[note 3]</i>	Unrestricted net operating surplus \$	Total \$	Total \$
Balance, beginning of year	122,991	800,000	513,057	405,004	1,841,052	1,519,461
Excess (deficiency) of revenue over expenses for the year	(86,262)	(48,044)	—	547,750	413,444	321,591
Transfer of interest earned on investments to deferred contributions <i>[notes 8 and 11]</i>	—	48,044	—	(48,044)	—	—
Transfer to remediation fund <i>[note 3]</i>	—	—	11,320	(11,320)	—	—
Investment in capital assets	114,241	—	—	(114,241)	—	—
Balance, end of year	150,970	800,000	524,377	779,149	2,254,496	1,841,052

See accompanying notes

IISD Experimental Lakes Area Inc.

Statement of cash flows

Year ended March 31

	2020	2019
	\$	\$
Operating activities		
Excess of revenue over expenses for the year	413,444	321,591
Add (deduct) items not affecting cash		
Amortization of capital assets	86,262	89,100
Amortization of capital assets funded by capital contributions	115,044	119,706
Amortization of deferred capital contributions to revenue	(115,044)	(119,706)
Gain on disposal of capital assets	—	(1)
Sustainable Future Fund	(2,176)	(5,769)
	<u>497,530</u>	404,921
Changes in non-cash working capital balances related to operations		
Grants receivable	(48,463)	(901,301)
Accounts receivable	33,636	(65,119)
Prepaid expenses	(88,116)	22,640
Accounts payable and accrued liabilities	157,447	(43,545)
Due to International Institute for Sustainable Development	2,424	(37,639)
Deferred contributions	206,174	421,638
Cash provided by (used in) operating activities	<u>760,632</u>	<u>(198,405)</u>
Investing activities		
Proceeds on sale of capital assets	—	1
Purchase of capital assets	(199,884)	(80,870)
Purchase of intangible assets	(2,599)	—
Purchase of investments – net	37,910	(82,406)
Contributions to restricted cash	(11,320)	(8,620)
Cash used in investing activities	<u>(175,893)</u>	<u>(171,895)</u>
Financing activities		
Capital contributions received	98,606	47,359
Cash provided by financing activities	<u>98,606</u>	<u>47,359</u>
Net increase (decrease) in cash during the year	683,345	(322,941)
Cash and cash equivalents, beginning of year	502,251	825,192
Cash and cash equivalents, end of year	<u>1,185,596</u>	<u>502,251</u>

See accompanying notes

IISD Experimental Lakes Area Inc.

Notes to financial statements

March 31, 2020

1. Incorporation, mandate and tax status

IISD Experimental Lakes Area Inc. ["IISD ELA Inc."] was incorporated on August 21, 2013 under the *Canada Not-for-profit Corporations Act* in which International Institute for Sustainable Development ["IISD"] is the sole member. The Experimental Lakes Area is a freshwater research facility in Northwestern Ontario that has operated as a government research facility over the past 50 years. IISD ELA Inc. assumed control of the management and operations of the Experimental Lakes Area on April 1, 2014. IISD ELA Inc. obtained charitable status in Canada on November 10, 2014.

2. Significant accounting policies

The financial statements have been prepared in accordance with Part III of the *CPA Canada Handbook – Accounting*, "Accounting Standards for Not-for-Profit Organizations," which sets out generally accepted accounting principles for not-for-profit organizations in Canada and includes the following significant accounting policies:

Revenue recognition

IISD ELA Inc. follows the deferral method of accounting for contributions, which includes government grants.

Designated grants revenue

Designated grants must be expended in accordance with the funder's designation. Revenue for grants designated for specific current or future activities is recorded in the accounts as the related expenses are incurred.

Sustainable Future Fund revenue

Revenue for Sustainable Future Fund projects is recorded in the accounts as the related expenses are incurred as prescribed in the funding agreement. Until expended, amounts related to income earned in the fund are recorded as deferred contributions.

Unrestricted donations revenue

Donations are recognized as revenue when the funds are received.

Amortization of deferred capital contributions

Capital contributions are recognized as revenue as the amortization expense on the related assets are incurred.

Investment income

Investment income is recorded on an accrual basis. Investment income includes dividend and interest income, distributions from mutual funds, and realized and unrealized gains and losses, less transaction costs and management fees.

Other revenue

Other revenue includes in-kind contributions, cost recoveries and lab analysis and facility fees. Cost recoveries are recognized when received. In-kind contributions are recognized upon receipt of the in-kind items and are measured at fair market value, and lab analysis and facility fees are recognized on an accrual basis when incurred.

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Financial instruments

IISD ELA Inc. initially measures its financial assets and financial liabilities at fair value. Equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost.

The financial assets subsequently measured at amortized cost include accounts receivable, grants receivable and fixed income investments. The financial liabilities measured at amortized cost include accounts payable and accrued liabilities.

Allocation of expenses

The costs of personnel and other expenses directly related to functions are allocated to each function. General support and other costs are not allocated.

Investments

Investments include cash, equities, fixed income securities and mutual funds. Investments reported at fair value consist of equity instruments quoted in an active market, mutual funds, and fixed income securities and equity instruments not quoted in an active market that IISD ELA Inc. designates upon purchase to be measured at fair value. Transaction costs are recognized in the statement of operations and changes in unrestricted net operating surplus (deficit) in the period during which they are incurred. Transactions are recorded on a trade date basis.

Cash and cash equivalents

Cash and cash equivalents consists of cash deposits and short-term investments with an original term to maturity less than 90 days or able to be cashed on demand. Cash and investments meeting the definition of cash and cash equivalents that are held for investing rather than liquidity purposes are classified as investments and recorded as long-term assets.

Capital assets

Purchased capital assets are recorded at cost which include purchase price and other acquisition costs. For a contributed tangible capital asset, cost is deemed to be fair value at the date of contribution plus all costs directly attributable to the acquisition of the tangible capital asset. In unusual circumstances when fair value cannot be reasonably determined, the tangible capital asset and the related contribution shall be recorded at nominal value. Amortization shall be charged to income as the greater of the cost less salvage value over the life of the asset, and the cost less residual value over the useful life of the asset. Amortization is computed using the straight-line method over the following terms:

Boats, motors and vehicles	3 years, no residual
Equipment	5 years, no residual
Computer systems	3 years, no residual
Office equipment	10 years, 5% residual
Buildings	20 years, no residual
Leasehold improvements	Remaining term

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When conditions indicate that a capital asset is impaired, the net carrying amount of the capital asset shall be written down to the asset's fair value or replacement cost. The write-downs of capital assets shall be accounted for as expenses in the statement of operations and write-downs shall not be reversed. When a capital asset's carrying amount is written down, a corresponding amount of any unamortized deferred contributions related to the capital asset would be recognized as revenue, provided that all restrictions have been complied with.

Prior to April 1, 2019, the capital asset policy was as follows:

Capital assets

Capital assets are recorded at cost. Amortization, which is based on the cost less the residual value over the useful life of the asset, is computed using the straight-line method over the following terms:

Boats, motors and vehicles	3 years, no residual
Equipment	5 years, no residual
Computer systems	3 years, no residual
Office equipment	10 years, 5% residual
Buildings	20 years, no residual
Leasehold improvements	Remaining term

Intangible assets

Purchased intangible assets are carried at cost, less accumulated amortization and accumulated impairment losses, if any. A contributed intangible asset is recognized at its fair value at the date of contribution and subsequently amortized and assessed for impairment. When an estimate of fair value cannot reasonably be made, both the intangible asset and the related contribution would be recognized at nominal value. IISD ELA Inc. purchased the perpetual right, through a bait block purchase, to be the sole harvester of bait fish on specific lakes and streams. Management has determined that its purchase intangible assets have an indefinite useful life and, accordingly, they are not amortized, but are tested for impairment annually. When conditions indicate that an intangible asset is impaired, the net carrying amount of the intangible asset shall be written down to the asset's fair value or replacement cost. The write-downs of intangible assets shall be accounted for as expenses in the statement of operations and a write-down shall not be reversed. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable.

Prior to April 1, 2019, the intangible asset policy was as follows:

Intangible assets

IISD ELA Inc. purchased the perpetual right, through a bait block purchase, to be the sole harvester of bait fish on specific lakes and streams. Intangible assets are carried at cost, less accumulated amortization and accumulated impairment losses, if any. Management has determined its intangible assets have an indefinite useful life and, accordingly, they are not amortized, but are tested for impairment annually. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable.

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Use of estimates

The preparation of financial statements in conformity with accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates include the useful lives of capital assets. Actual results could differ from these estimates.

Changes in significant accounting policies

Section 4433, *Tangible Capital Assets Held by Not-for-Profit Organizations* and Section 4434, *Intangible Assets Held by Not-for-Profit Organizations*

Section 4433 and Section 4434 prescribe that not-for-profit organizations follow the guidance in Accounting Standards for Private Enterprises ["ASPE"] Sections 3061, *Property, Plant and Equipment*, Section 3064, *Goodwill and Intangible Assets*, and Section 3310, *Asset Retirement Obligations*, except for not-for-profit organizations specific guidance included in Section 4433 and Section 4434 on contributed assets and write-downs of assets. Applying Section 3061 would include considering the guidance on asset componentization. Additionally, a tangible capital asset or intangible asset is written down to its fair value or replacement cost to reflect a partial impairment of the asset when conditions indicate that the asset:

- No longer contributes to a not-for-profit organizations' ability to provide goods or services; or
- The value of future economic benefits or service potential associated with the asset is less than its net carrying amount.

Section 4433 and Section 4434 provide examples of conditions that may indicate impairment and any impairment would be disclosed in accordance with the requirements in ASPE Section 3063, *Impairment of Long-lived Assets*. The standards are effective for fiscal years beginning on or after January 1, 2019. Effective April 1, 2019, IISD ELA Inc. adopted Section 4433 and 4434 and have applied the standards prospectively. Accordingly, the information presented for fiscal year ended March 31, 2019 has not been restated. IISD ELA Inc. applied the requirements of componentization to tangible capital assets held on April 1, 2019 by allocating the cost of tangible capital assets and related amortization to their component parts based on their relative cost at the date the assets were acquired. Adoption of Section 4433 and 4434 did not have a material impact on the Company's financial statements.

Recently issued accounting standards

Standards issued but not yet adopted

Section 4460, *Disclosure of Related Party Transactions*

Section 4460 had one amendment effective for periods beginning on or after January 1, 2020 [paragraph 4460.01A], which states that a not-for-profit organization would apply Section 3856, *Financial Instruments* to the accounting for and disclosure of financial instruments in a related party transaction, except as otherwise specified. IISD ELA Inc. is currently evaluating the impact that this amendment will have on its financial statements.

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3. Restricted cash

IISD ELA Inc. established a fund to cover the costs of the remediation of the ELA sites under certain circumstances, as outlined in the signed funding agreement with the Province of Ontario. IISD ELA Inc. is required to contribute a total amount of \$500 thousand to the fund, which was fully transferred in prior years. The funds are held in an interest-bearing account, with IISD ELA Inc. and the Government of Ontario having joint signing authority. Based on the restrictions on the use of the funds, the amounts are recorded as restricted cash as well as allocated to restricted amounts within net assets. During the year, interest of \$11 thousand [2019 – \$9 thousand] was earned on the account.

4. Grants receivable

Grants receivable consist of the following:

	2020 \$000s	2019 \$000s
Genome Canada and Genome Prairie	596	—
Government of Canada [Department of Fisheries and Oceans]	659	100
Canadian Energy Pipeline Association	—	355
Canadian Association of Petroleum Producers	—	260
Jacor LLC	82	100
Natural Sciences and Engineering Research Council	73	—
FortWhyte Alive	45	—
Federal Economic Development Initiative for Northern Ontario [FedNor]	40	—
Ontario Trillium Foundation	5	—
Department of Canadian Heritage	3	—
Government of Ontario	—	500
Trent University	—	110
Northern Ontario Heritage Fund Corporation	—	30
	1,503	1,455
Less current portion	962	1,195
	541	260

5. Investments

Investments consist of the following:

	2020 \$000s	2019 \$000s
Common shares, measured at fair value	426	466
Canadian and foreign fixed income, measured at amortized cost	324	319
Mutual funds, measured at fair value	202	205
	952	990

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All investments are denominated in Canadian dollars and invested in accordance with IISD ELA Inc.'s investment policy.

Canadian fixed income investments consist of bonds that have a weighted average term to maturity of 10.70 [10 years, 8 months] and a weighted average yield to maturity of 2.10%.

Foreign fixed income investments consist of bonds that have a weighted average term to maturity of 11.80 [11 years, 10 months] and a weighted average yield to maturity of 2.00%.

The common shares and mutual funds consist of a diversified portfolio of widely held publicly traded securities and units of mutual funds. The unit price of these equities will fluctuate with market conditions.

The amounts invested in mutual funds consist of domestic and global bond and equity funds.

6. Capital assets

The categories of capital assets are summarized as follows:

	2020		2019	
	Cost \$000s	Accumulated amortization \$000s	Cost \$000s	Accumulated amortization \$000s
Boats, motors and vehicles	478	422	416	358
Equipment	478	310	377	233
Computer systems	75	73	76	72
Office equipment	20	11	20	9
Leasehold improvements	138	114	138	99
Buildings	831	123	794	81
	2,020	1,053	1,821	852
Net book value	967		969	

7. Government remittances payable

Accounts payable and accrued liabilities include government remittances payable of \$8 thousand [2019 – \$7 thousand].

IISD Experimental Lakes Area Inc.

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8. Deferred contributions

Deferred contributions are amounts by which recorded funding commitments exceed the revenue recognized.

	2020 \$000s	2019 \$000s
Balance, beginning of year	1,618	1,202
Deferred contributions received	4,555	4,255
Transfer of interest earned from (to) Sustainable Future Fund <i>[note 11]</i>	(48)	80
Amounts amortized to revenue	(4,303)	(3,919)
Balance, end of year	1,822	1,618

At March 31, the deferred contributions balances are as follows:

	2020 \$000s	2019 \$000s
Genome Canada and Genome Prairie	624	—
Government of Canada [Department of Fisheries and Oceans]	292	—
RBC Foundation	221	496
Canadian Energy Pipeline Association	70	318
Canadian Association of Petroleum Producers	34	282
Natural Sciences and Engineering Research Council	135	74
FortWhyte Alive	114	71
Sustainable Future Fund	98	148
Jacor LLC	69	100
Ontario Trillium Foundation	50	—
Azrieli Foundation	50	50
Department of Canadian Heritage	33	—
Manitoba Hydro	25	58
Other Restricted Donations	4	2
Estate of Robert Cooke	3	4
Michael Paterson and Gail Asper	—	10
Tides Canada	—	5
	1,822	1,618
Less current portion	1,380	1,034
	442	584

The deferred contributions are mainly intended to fund diluted bitumen studies, long-term monitoring and research on indicators of fish productivity, freshwater science literacy, summer students visiting and working onsite, First Nations outreach and research infrastructure.

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9. Deferred capital contributions

Deferred capital contributions represent contributed assets and externally restricted contributions for the purchase or construction of capital assets. These contributions are being amortized on the same basis as the amortization of the related capital assets. The changes in the deferred capital contributions balance for the year are as follows:

	2020 \$000s	2019 \$000s
Balance, beginning of year	818	891
Capital contributions	99	47
Amounts amortized to revenue	(115)	(120)
Balance, end of year	802	818

At March 31, the deferred capital contributions balances are as follows:

	2020 \$000s	2019 \$000s
Michael Paterson and Gail Asper	587	625
Richardson Foundation	54	88
Manitoba Hydro	45	51
Other Restricted Donations	26	10
Thomas Sill Foundation	25	15
Government of Canada [Department of Fisheries and Oceans]	22	15
Genome Canada and Genome Prairie	18	—
The John and Pat McCutcheon Charitable Foundation	16	—
Canadian Association of Petroleum Producers	9	14
	802	818

10. Commitments

The rental payments for the upcoming year is \$90 thousand which represents the rent portion allocated to IISD ELA Inc. by its parent company IISD which will be determined and renewed on an annual basis, over the next three years.

11. Sustainable Future Fund

The Sustainable Future Fund was created with the initial donation of capital of \$250 thousand by a private donor. This initial donation, the "Original Capital," was fully expended at March 31, 2017 as per the donation agreement. In prior years, the fund received "Additional Capital" of \$800 thousand. All Additional Capital is to be permanently retained. To the extent possible, the interest earned from the Additional Capital will be used to support two to three summer students each year, as per the agreement. During the prior year, the current agreement with the funder was amended to allow for the interest earned on the fund to support the ongoing efforts of the IISD-ELA Inc.'s Education and Outreach program of activities, particularly emphasizing the involvement of Canadian university student researchers.

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Expenses amounting to \$2 thousand were incurred during fiscal 2020 [2019 – \$6 thousand], resulting in revenue of that amount being recorded to match the expenses incurred. The current year investment loss on the Additional Capital of \$48 thousand was recorded in deferred contributions [2019 – \$80 thousand income earned].

The Additional Capital has been invested in an investment portfolio subject to IISD ELA Inc.'s investment policy [note 5].

12. Internally restricted for capital assets

Change in net assets internally restricted for capital assets relates to assets that were acquired without specific directed funding and is calculated as follows:

	2020 \$000s	2019 \$000s
Amortization of capital assets	(86)	(89)
Purchase of capital assets	114	28
	<u>28</u>	<u>(61)</u>

13. Financial instruments and risk management

IISD ELA Inc. is exposed to various financial risks through transactions in financial instruments.

Interest rate risk

IISD ELA Inc. is exposed to fluctuations in interest rates that could affect cash flows. IISD ELA Inc. does not use derivative financial instruments to manage interest rate risk.

IISD ELA Inc. is exposed to interest rate risk with respect to its fixed income investments as well as fixed income mutual funds that hold fixed income securities because the fair value of the investments will fluctuate due to changes in market interest rates.

Credit risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. Credit risk related to IISD ELA Inc.'s grants receivable and accounts receivable is mitigated by the fact that the majority of the receivables are due from established entities as outlined in note 4. The carrying value reflects management's assessment of the associated maximum exposure to such credit risk.

Currency risk

Currency risk is the risk that arises from fluctuations in currency exchange rates, and the degree of volatility of these rates. Since IISD ELA Inc.'s cash inflows and outflows are mainly in Canadian dollars, the exposure to currency risk is insignificant. IISD ELA Inc. does not use derivative instruments to reduce its exposure to foreign currency risk.

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IISD ELA Inc. is exposed to foreign currency risk with respect to the underlying investments of its global mutual funds or equity instruments denominated in foreign currencies because the fair value and future cash flows will fluctuate due to changes in the relative value of foreign currencies against the Canadian dollar. IISD ELA Inc.'s foreign currency risk is mitigated by its investment portfolio, which has a limited foreign component.

Other price risk

IISD ELA Inc. is exposed to other price risk through changes in market prices [other than changes arising from interest rate risk or currency risk] in connection with its investments in equity securities and mutual funds invested in underlying equities.

14. Related party transactions

IISD is the sole member of IISD ELA Inc. During the year, IISD ELA Inc. earned revenue from IISD of \$33 thousand [2019 – \$18 thousand] and incurred \$476 thousand in expenses under a shared services agreement with IISD [2019 – \$451 thousand], in addition to \$150 thousand of additional services provided by IISD [2019 – \$110 thousand]. At March 31, 2020, IISD ELA Inc. has an amount owing to IISD of \$25 thousand [2019 – \$22 thousand]. This amount owing to IISD represents the expenses incurred in the last month of the year due as at March 31 and accordingly the balances are non-interest bearing.

Occasionally throughout the year, IISD ELA Inc and IISD require intercompany loans for cash purposes. During the year no loans were required. Interest charged on these loans is prime plus 1%. Total interest expense paid to IISD during the year was Nil [2019 – \$180] and is recorded in administration expense.

Related party transactions are recorded at the exchange amount and are in the normal course of operations.

15. Economic dependence

IISD ELA Inc. has funding agreements with the Government of Ontario and the Government of Canada [Department of Fisheries and Oceans] ending March 31, 2021 and March 31, 2022 for \$2.0 million and \$1 million, respectively, each year. IISD ELA Inc. also has another funding agreement with Department of Fisheries on Ocean ending on March 31, 2023 for \$559 thousand and for which, \$253 thousand of revenue had been recognized for the year. These designated grants account for 66% of the total revenue in the current year [2019 – 65%]. In March 2020, a one-year extension of the current funding agreement with the Government of Ontario was signed providing funding for \$2 million.

16. IISD ELA Inc. Endowment Fund

In September 2018, IISD ELA Inc. entered into an agreement with The Winnipeg Foundation to establish the IISD ELA Inc. Endowment Fund. All contributions made to the endowment fund are held and invested by The Winnipeg Foundation. Contributions to the fund are made by both IISD ELA Inc. and the general public. Investment income generated from the contributed capital may be used at the discretion of the Board of Directors of IISD ELA Inc.

IISD ELA Inc. did not make any contributions to The Winnipeg Foundation, nor did it draw out investment income earned on the endowment fund during the year.

As of March 31, 2020, the fund had a market value of \$603 thousand [2019 – \$164 thousand].

Notes to financial statements

March 31, 2020

17. Subsequent event

The ongoing Coronavirus disease ["COVID-19"] pandemic has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses and various organizations globally resulting in an economic slowdown. The duration and impact of the COVID-19 outbreak, including related travel advisories and restrictions that may impact future planned projects and activities, is unknown at this time, nor is the efficacy of the government and central bank monetary and fiscal interventions designed to stabilize economic conditions. As a result, it is not possible to reliably estimate the length and severity of these developments nor the impact on the financial position and financial results of IISD ELA Inc. in future periods.