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Palette Skills Inc.
Financial Statements
For the year ended March 31, 2026

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Independent Auditor's Report

To the Board of Directors of Palette Skills Inc.

Opinion

We have audited the financial statements of Palette Skills Inc. (the "Organization"), which comprise the statement of financial position as at March 31, 2026, and the statements of operations and changes in net assets (deficiency) and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at March 31, 2026, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

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

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

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

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

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

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Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Oakville, Ontario
August 21, 2026

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Palette Skills Inc.
Statement of Financial Position

March 31	2026	2025
Assets		
Current		
Cash	**$ 16,434,503**	$ 13,033,033
Accounts receivable	**32,718**	1,110
Government remittance receivable	**377,184**	175,305
Prepaid expenses	**107,712**	123,420
	$ 16,952,117	$ 13,332,868
Liabilities and Net Assets (Deficiency)		
Current		
Accounts payable and accrued liabilities (Note 4)	**$ 2,073,366**	$ 1,254,142
Service delivery partner liability (Note 3)	**13,120,100**	8,291,946
Deferred revenue (Note 4)	**149,114**	4,286,425
	15,342,580	13,832,513
Net assets (deficiency)		
Unrestricted	**1,609,537**	(499,645)
	$ 16,952,117	$ 13,332,868

On behalf of the Board:

DocuSigned by:
Janet Holt
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Director

DocuSigned by:
Louis L'Évesque
25874EB8CE03414...
Director

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

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Palette Skills Inc.
Statement of Operations and Changes in Net Assets (Deficiency)

For the year ended March 31	2026	2025
Revenue		
Government funding	**$ 89,936,552**	$ 84,295,713
Non-government funding	**1,358,264**	492,209
Program fees	**85,902**	51,400
Other income	**39,881**	13,924
Interest income	**22,741**	35,327
	91,443,340	84,888,573
Expenses		
Program delivery	**79,471,459**	75,930,847
Salaries and benefits	**8,371,934**	7,914,884
Professional fees	**657,481**	618,801
Office and administration	**343,044**	343,116
Advertising and promotion	**207,649**	292,805
Travel	**181,179**	243,474
Insurance	**101,412**	74,105
	89,334,158	85,418,032
Excess (deficiency) of revenue over expenses	**2,109,182**	(529,459)
Net assets (deficiency), beginning of year	**(499,645)**	29,814
Net assets (deficiency), end of year	**$ 1,609,537**	$ (499,645)

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

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Palette Skills Inc.
Statement of Cash Flows

For the year ended March 31	2026	2025
Cash flows from operating activities		
Excess (deficiency) of revenue over expenses	**$ 2,109,182**	$ (529,459)
Changes in non-cash working capital balances		
Accounts receivable	**(31,608)**	75
Government remittances receivable	**(201,879)**	514,899
Prepaid expenses	**15,708**	1,383,964
Accounts payable and accrued liabilities	**819,224**	189,204
Deferred revenue	**(4,137,311)**	208,047
Service delivery partner liability	**4,828,154**	(1,942,851)
Increase (decrease) in cash during the year	**3,401,470**	(176,121)
Cash, beginning of year	**13,033,033**	13,209,154
Cash, end of year	**$ 16,434,503**	$ 13,033,033

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

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Palette Skills Inc.
Notes to Financial Statements

March 31, 2026

1. Purpose of the Organization

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

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

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

During the year, the Organization's funding under the Innovation, Science and Economic Development Canada ("ISED") Contribution Agreement for the Upskilling for Industry Initiative Program expired on March 31, 2026. This agreement represented a significant source of funding for the Organization's operations.

Subsequent to year-end, the Organization secured alternative sources of funding to support its ongoing activities. As a result, the Organization expects to continue operations; however, its activities will be conducted at a significantly reduced scale compared to those undertaken during the term of the ISED Contribution Agreement.

2. Significant Accounting Policies

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

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

Program fees and interest income are recognized when earned.

Financial Instruments
Financial instruments are recorded at fair value at initial recognition.

In subsequent periods, financial instruments are reported at cost or amortized cost less impairment. Transaction costs on the acquisition, sale or issue of financial instruments are expensed for those items measured at fair value and charged to the financial instrument for those measured at amortized cost.

Financial assets are tested for impairment when indicators of impairment exist. When a significant change in the expected timing or amount of the future cash flows of the financial asset is identified, the carrying amount of the financial asset is reduced and the amount of the write-down is recognized in net income. A previously recognized impairment loss may be reversed to the extent of the improvement, provided it is not greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously, and the amount of the reversal is recognized in net income.

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2. Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the statement of financial position date and the reported amounts of revenues and expenditures during the year. Actual results could differ from those estimates.

3. Service Delivery Partner Liability

As part of the Contribution Agreement referred to in Note 4, the Organization is a lead recipient for the Upskilling for Industry Initiative and has entered into Ultimate Recipient Agreement's with underlying Service Delivery Partners ("Ultimate Recipients") to assist in delivering on the project. As at year end, the Organization has an amount owing of $13,120,100 (2025 - $8,291,946) to a number of Ultimate Recipient's based on eligible project costs incurred through March 31, 2026.

4. Deferred Revenue

	2026	2025
Balance, beginning of the year	**$ 4,286,425**	$ 4,078,378
Received	**91,355,052**	84,579,533
Recognized as revenue	**(91,281,265)**	(84,371,486)
Repayment of Upskilling for Industry Initiative funds	**(3,598,490)**	-
Reclassification of remaining Upskilling for Industry Initiative unspent funds to accounts payable and accrued liabilities	**(612,608)**	-
Balance, end of year	**$ 149,114**	$ 4,286,425

On March 14, 2023, the Organization signed a Contribution Agreement ("the Agreement") to receive government funding over a three year period. As a part of the Agreement, the Organization intends to receive, and recognize as revenue, funds received based on spending those funds in accordance with the Agreement on eligible expenditures. For the fiscal year ended March 31, 2026, the Organization received $90,343,468 of the maximum available contribution of $95,343,485.

The terms of the agreement state that in the event that all of, or a portion of, the received funds are not spent on eligible expenditures at the completion of the Upskilling for Industry Initiative program, which is March 31, 2026, the Organization is required to return the unspent portion of the funds.

At year end, included in accounts payable and accrued liabilities is $612,608 (2025 - $Nil) of unspent funds related to the Upskilling for Industry Initiative program that must be returned.

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5. Financial Instrument Risks

Credit Risk

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

Liquidity Risk

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

6. Comparative Figures

Certain comparative figures have been reclassified to conform with the presentation of the current year.