

Canadian Microelectronics Corporation/
Société Canadienne de Micro-électronique

Operating as

CMC Microsystems
Non-consolidated
Financial Statements
For the year ended March 31, 2018

**Canadian Microelectronics Corporation/
Société Canadienne de Micro-électronique**
Non-consolidated Financial Statements
For the year ended March 31, 2018

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Independent Auditor's Report

**To the Members of
Canadian Microelectronics Corporation/Société Canadienne de Micro-électronique**

Report on the Financial Statements

We have audited the accompanying non-consolidated financial statements of the Canadian Microelectronics Corporation/Société Canadienne de Micro-électronique which comprise the statements of financial position as at March 31, 2018 and March 31, 2017 and the non-consolidated statements of changes in net assets, revenue and expenditures and cash flows for the years ended March 31, 2018 and March 31, 2017 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the non-consolidated financial statements present fairly, in all material respects, the financial position of the Canadian Microelectronics Corporation/Société Canadienne de Micro-électronique as at March 31, 2018 and March 31, 2017 and its financial performance and its cash flows for the years ended March 31, 2018 and March 31, 2017 in accordance with Canadian accounting standards for not-for-profit organizations.

Collins Barrow SEO LLP

Chartered Professional Accountants
Licensed Public Accountants

Kingston, Ontario
June 21, 2018

**Canadian Microelectronics Corporation/
Société Canadienne de Micro-électronique**
Non-consolidated Statement of Financial Position

March 31	2018	2017
Assets		
Current		
Cash (Note 1)	\$ 1,461,128	\$ 4,380,126
Accounts receivable (Note 2)	5,723,598	1,741,448
Prepaid expenses	253,143	227,229
	<u>7,437,869</u>	<u>6,348,803</u>
Investment in DMT Microsystems Corporation (Note 4)	366,366	240,471
Capital assets (Note 5)	217,870	286,430
	<u>\$ 8,022,105</u>	<u>\$ 6,875,704</u>
Liabilities and Net Assets		
Current		
Funds owing to Queen's University (Note 6)	\$ 399,419	\$ 724,837
Accounts payable and accrued liabilities (Note 7)	1,673,372	1,249,077
HST payable	130,803	144,008
Deferred revenue	315,670	268,345
	<u>2,519,264</u>	<u>2,386,267</u>
Net assets		
Invested in capital assets	217,870	286,430
Restricted net assets	280,856	1,463
Unrestricted net assets	5,004,115	4,201,544
	<u>5,502,841</u>	<u>4,489,437</u>
	<u>\$ 8,022,105</u>	<u>\$ 6,875,704</u>

On behalf of the Board:

_____ Director

_____ Director

**Canadian Microelectronics Corporation/ Société
Canadienne de Micro-électronique
Non-consolidated Statement of Changes in Net Assets**

For the year ended March 31	2018					2017
	NSERC Funded Portion of the National Design Network	Other	RSF	MSI	Total	Total
Net assets, beginning of year	\$ 265,210	\$ 4,222,764	\$ 1,463	\$ -	\$ 4,489,437	\$ 3,958,763
Excess of revenue over expenditures (expenditures over revenue) for the year	215,077	798,327	-	-	1,013,404	530,674
Net assets, end of year	\$ 480,287	\$ 5,021,091	\$ 1,463	\$ -	\$ 5,502,841	\$ 4,489,437
Represented by:						
Invested in capital assets	\$ 200,894	\$ 16,976	\$ -	\$ -	\$ 217,870	\$ 286,430
Restricted net assets, end of year	279,393	-	1,463	-	280,856	1,463
Unrestricted net assets, end of year	-	5,004,115	-	-	5,004,115	4,201,544
	\$ 480,287	\$ 5,021,091	\$ 1,463	\$ -	\$ 5,502,841	\$ 4,489,437

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

**Canadian Microelectronics Corporation/ Société
Canadienne de Micro-électronique**
Non-consolidated Statement of Revenue and Expenditures

For the year ended March 31	2018					2017
	NSERC Funded Portion of the National Design Network	Other	RSF	MSI	Total	Total
Revenue						
Grant from NSERC/RSF	\$ 5,254,261	\$ -	\$ 1,245,739	\$ -	\$ 6,500,000	\$ 8,000,000
Grant from CFI-MSI	-	-	-	2,125,000	2,125,000	-
Contract management	-	1,272,994	-	-	1,272,994	1,142,793
Other - cost sharing	-	916,387	-	-	916,387	894,200
Cost sharing for fabrication	-	446,113	-	-	446,113	589,487
Engineering development	-	125,896	-	-	125,896	85,643
Donations for courses and annual symposium	-	94,675	-	-	94,675	50,375
Interest	-	33,895	-	-	33,895	26,134
	5,254,261	2,889,960	1,245,739	2,125,000	11,514,960	10,788,632
Expenditures						
Salaries and benefits	2,668,847	1,264,484	658,129	1,271,324	5,862,784	5,686,926
Equipment purchases and development contracts	1,707,424	501,915	-	552,372	2,761,711	2,899,862
Travel	251,005	16,022	49,610	128,105	444,742	361,473
Rent overhead	-	72,355	289,420	27,044	388,819	394,704
Professional fees	32,926	28,599	204,522	75,569	341,616	251,020
Office and miscellaneous	137,090	1,827	7,311	32,583	178,811	166,602
Contribution to ADEPT project	-	168,000	-	-	168,000	168,000
Depreciation	93,412	4,244	-	-	97,656	107,300
Equipment maintenance	39,308	2,143	8,571	6,014	56,036	35,097
Telephone	28,118	992	3,970	13,313	46,393	50,422
Foreign exchange loss	38,505	-	-	-	38,505	(2,461)
Training	29,791	177	709	3,619	34,296	28,502
Contract services	-	26,366	5,463	852	32,681	65,812
Insurance	-	3,680	14,718	7,403	25,801	27,881
Printing	12,758	450	1,801	6,040	21,049	11,625
Repairs and alterations to premises	-	379	1,515	762	2,656	5,193
	5,039,184	2,091,633	1,245,739	2,125,000	10,501,556	10,257,958
Excess of revenue over expenditures for the year	\$ 215,077	\$ 798,327	\$ -	\$ -	\$ 1,013,404	\$ 530,674

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

**Canadian Microelectronics Corporation/
Société Canadienne de Micro-électronique
Non-consolidated Statement of Cash Flows**

For the year ended March 31	2018	2017
Cash provided by (used in):		
Operations		
Cash received from NSERC/RSF	\$ 6,500,000	\$ 8,000,000
Cash received from other sources	907,141	4,121,686
Interest received	33,895	26,134
Cash paid to suppliers and employees	(10,005,520)	(10,033,703)
	(2,564,484)	2,114,117
Investments		
Purchase of capital assets	(29,096)	(50,074)
Increase (decrease) in cash and cash equivalents during the year	(2,593,580)	2,064,043
Cash and cash equivalents, beginning of year	3,655,289	1,591,246
Cash and cash equivalents, end of year	\$ 1,061,709	\$ 3,655,289
Represented by:		
Cash	\$ 1,461,128	\$ 4,380,126
Funds owing to Queen's University	(399,419)	(724,837)
	\$ 1,061,709	\$ 3,655,289

Canadian Microelectronics Corporation/ Société Canadienne de Micro-électronique Summary of Significant Accounting Policies

March 31, 2018

Nature of Business	<p>Canadian Microelectronics Corporation/Société Canadienne de Micro-électronique (the "organization") is incorporated without share capital under the Canada Corporations Act as a not-for-profit organization. The organization is exempt from income tax under section 149(1)(j) of the Income Tax Act.</p> <p>The organization's principal objective is to enable and accelerate Canadian competitiveness through microsystems.</p>
Basis of Accounting	<p>These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.</p>
Accrual Basis of Accounting	<p>Revenue and expenditures are recorded on the accrual basis, whereby they are reflected in the accounts in the period in which they have been earned and incurred respectively, whether or not such transactions have been finally settled by the receipt or payment of money.</p>
Fund Accounting	<p>The <i>Natural Sciences and Engineering Research Council of Canada (NSERC) Funded Portion of the National Design Network Fund</i> reports only NSERC granted resources that are to be used in support of the National Design Network.</p> <p>The <i>Other Fund</i> accounts for the organization's non-NSERC supported activities.</p> <p>The <i>RSF (Research Support Fund)</i> accounts for some indirect expenditures incurred for the National Design Network.</p> <p>The <i>CFI-MSI (Canada Foundation for Innovation- Major Sciences Initiative Fund)</i> accounts for some operating and maintenance expenditures incurred for the National Design Network.</p>
Investment in DMT Microsystems Corporation	<p>Investment in DMT Microsystems Corporation, a wholly owned subsidiary, is accounted for using the equity method.</p>

Canadian Microelectronics Corporation/ Société Canadienne de Micro-électronique

Summary of Significant Accounting Policies

March 31, 2018

Capital Assets

Capital assets are stated at cost less accumulated amortization. Amortization based on the estimated useful life of the asset is calculated as follows:

Equipment	- 30 % diminishing balance basis
Furniture and fixtures	- 20 % diminishing balance basis
Computer software	- 50 % diminishing balance basis
Leasehold improvements	- 10 years straight-line basis

Amortization of capital assets acquired during the year is calculated at one-half rates.

Computer Equipment Located at Universities

The cost of acquiring computer equipment provided on long-term loan to universities is expensed when incurred.

Revenue Recognition

The organization follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred.

NSERC funding and 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.

Revenues earned from transactions with DMT Microsystems Corporation are not recognized until the final sale with an arm's length entity.

Contributions-In-Kind

No value is ascribed in the statement of operations to donated material and services which are received under the matching provisions of the agreement with NSERC.

Canadian Microelectronics Corporation/ Société Canadienne de Micro-électronique

Summary of Significant Accounting Policies

March 31, 2018

Use of Estimates

The preparation of financial statements in accordance 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 at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from management's best estimates, as additional information becomes available in the future.

Estimates have been made by management within these financial statements primarily in relation to accounts receivable, capital assets and accounts payable and accrued liabilities.

These estimates and assumptions are reviewed periodically and as adjustments become necessary they are reported in the periods in which they become known.

Foreign Currency Transactions

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense is translated into Canadian dollars by the use of the daily exchange rate for the period, except for amortization which is translated at the rates prevailing at the dates the related assets were acquired.

At the period end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date. The resulting foreign exchange gains and losses are included in the statement of operations in the current period.

Pension Plans

The organization has two different pension plans for employees. In addition, the organization provides future benefits such as medical, dental and life insurance to eligible and retired employees.

Canadian Microelectronics Corporation/ Société Canadienne de Micro-électronique Summary of Significant Accounting Policies

March 31, 2018

Pension Plans (continued)

Some employees are enrolled in a RRSP matching plan whereby the organization matches RRSP contributions made by the participant for up to 6% of their yearly maximum pensionable earnings ("YMPE") and up to 7% for amounts above YMPE up to their gross pay. YMPE is defined as the yearly maximum pensionable earnings as used in determining Canadian pension plan (CPP) contributions.

Some employees are members of the Queen's University Pension Plan ("Queen's Plan") which is a defined benefit plan for those individuals paid through Queen's University payroll and which provides a minimum level of pension benefits. Under this plan, the employer contributes 6% up to the YMPE and 7.5% above YMPE to their gross pay.

Pension plan costs are expensed in the year in which they relate.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, cash on deposit and funds owing to Queen's University.

**Canadian Microelectronics Corporation/
Société Canadienne de Micro-électronique**
Notes to Non-consolidated Financial Statements

March 31, 2018

1. Cash

The organization's bank accounts are held at one chartered bank.

Bank balances include \$18,404 denominated in U.S. dollars.

2. Accounts Receivable

	2018	2017
Fabrication cost sharing	\$ 165,400	\$ 215,733
Other	64,643	59,121
NSERC	395,412	-
MSI	2,125,000	-
Project management	2,727,508	1,447,606
Due from DMT Microsystems Corporation	245,635	18,988
	<u>\$ 5,723,598</u>	<u>\$ 1,741,448</u>

3. Related Party Transactions

The following table summarizes the organization's related party transactions for the year.

	2018	2017
Sales to DMT Microsystems Corporation	<u>\$ 460,567</u>	<u>\$ 416,824</u>

These transactions are in the normal course of operations and are measured at the exchange value, which is the amount established and agreed to by the related parties.

**Canadian Microelectronics Corporation/
Société Canadienne de Micro-électronique
Notes to Non-consolidated Financial Statements**

March 31, 2018

4. Investment in DMT Microsystems Corporation

	<u>2018</u>	<u>2017</u>
Investment	\$ 10	\$ 10
Retained earnings	341,356	215,461
Advance	<u>25,000</u>	<u>25,000</u>
Investment in DMT Microsystems Corporation	<u>\$ 366,366</u>	<u>\$ 240,471</u>

DMT Microsystems Corporation is a wholly owned profit-oriented subsidiary that is reported using the equity method with the following financial information:

	<u>2018</u>	<u>2017</u>
Total assets, liabilities and shareholder's equity	<u>\$ 609,393</u>	<u>\$ 745,957</u>
Excess revenue over expenditures	<u>\$ 128,405</u>	<u>\$ 95,619</u>
Cash flows from operating activities	<u>\$ (15,129)</u>	<u>\$ 72,507</u>

The organization has agreed to lend DMT Microsystems Corporation up to \$100,000, interest-free. As at March 31, 2018, \$25,000 (2017 - \$25,000) has been advanced.

**Canadian Microelectronics Corporation/
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Notes to Non-consolidated Financial Statements

March 31, 2018

5. Capital Assets

	2018		2017	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Equipment	\$ 2,745,967	\$ 2,589,714	\$ 2,816,490	\$ 2,606,554
Other furniture and fixtures	144,599	127,623	144,599	123,379
NSERC furniture and fixtures	208,976	194,546	208,976	190,939
Leasehold improvements	241,121	222,127	241,121	206,002
Computer software	269,784	258,567	256,240	254,122
	\$ 3,610,447	\$ 3,392,577	\$ 3,667,426	\$ 3,380,996
Net book value		\$ 217,870		\$ 286,430

During the year, capital assets were acquired at an aggregate cost of \$29,096 (2017- \$50,074) for cash.

Capital assets are composed of capital assets owned and used by the organization at its Kingston, Ontario headquarters.

6. Funds Owning to Queen's University

This balance is interest-free, payable on demand and has arisen in the normal course of operations.

7. Accounts Payable and Accrued Liabilities

Accounts payable include \$69,237 denominated in U.S. dollars, \$26,931 denominated in Euros and \$613,444 denominated in Singapore dollars.

**Canadian Microelectronics Corporation/
Société Canadienne de Micro-électronique
Notes to Non-consolidated Financial Statements**

March 31, 2018

8. Commitments

- (a) In March 2016, the organization renewed their infrastructure services agreement whereby \$40,000 is charged annually to cover support services provided by Queen's University. The term of this agreement is from June 1, 2007 to March 15, 2018 and since January 1, 2010, charges increased by 2.5% annually.
- (b) In December 2014, the organization renewed their operating lease with Queen's University at Kingston, covering the period of April 1, 2015 to April 1, 2020. The base rent is \$9,167 per month.
- (c) In December 2014, the organization renewed their operating lease with Queen's University at Kingston, covering the period of April 1, 2015 to April 1, 2020. The base rent is \$7,355 per month.
- (d) The organization rents facilities under an operating lease agreement with the National Research Council of Canada, covering the period of August 1, 2017 to July 31, 2018. The base rent is \$1,787 per month increasing to \$1,822 per month in April 2018.
- (e) In January 2016, the organization agreed to contribute to the operations and maintenance budget of the ADEPT project, which is a national multi-institutional project in the area of advanced design platform technology. The annual contribution is \$168,000 covering the 5 year period from April 1, 2016 to March 31, 2021.

The minimum annual lease payments for the five commitments (a to e) above for the next three years are as follows:

2019	\$ 438,083
2020	366,260
2021	<u>168,000</u>
Total	<u>\$ 972,343</u>

**Canadian Microelectronics Corporation/
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Notes to Non-consolidated Financial Statements**

March 31, 2018

9. Contractual Obligations

The organization has outstanding purchase orders issued at March 31, 2018 totaling \$649,090. Of this amount \$213,572 is denominated in US dollars, \$12,514 in Euros and \$127,250 in Singapore dollars. These amounts are not reflected in the financial statements.

10. Natural Sciences and Engineering Research Council of Canada

For the 2010-2018 period, NSERC has awarded the organization funding to a maximum of \$62.5 million. The organization is committed to obtaining at least \$60.5 million in eligible matching from private sector contributions and other revenues. Private sector contributions in-kind are documented by the organization, audited by and submitted to NSERC for review.

At March 31, 2018, the organization has \$73.2 million of in-kind contributions received from the private sector relating to the 2010-2018 funding period. A framework for valuing in-kind contributions to the National Design Network was developed by the organization and approved by NSERC. These amounts are currently unaudited.

11. Canada Foundation for Innovation- Major Sciences Initiative Fund

In 2017, the organization was awarded a grant from the Canada Foundation for Innovation through the Major Sciences Initiatives program for the 2017-2020 period. This grant funds up to 40% of operating and maintenance costs to a maximum of \$7 million over the three year period.

**Canadian Microelectronics Corporation/
Société Canadienne de Micro-électronique
Notes to Non-consolidated Financial Statements**

March 31, 2018

12. Economic Dependence

The organization is economically dependent on continued support from NSERC. In 2010, the organization formalized a renewal agreement with NSERC covering 2010-2015 to provide a maximum contribution of \$40 million over five years, subject to the organization receiving other cash and matching private sector contributions in-kind totaling \$38.5 million as approved by NSERC.

In 2015, NSERC extended the current grant for one year until March 31, 2016 and in 2016 the grant was extended for an additional two years until March 31, 2018. In 2017, NSERC extended the grant until March 31, 2019 and there will be no renewal after this date.

In 2017, CMC was awarded a maximum of \$7 million in funding covering 2017-2020 from Canada Foundation for Innovation through the Major Science Initiatives Program. Management continues to pursue long-term funding to replace the base funding provided by NSERC. Pending new sources of funding management has established a prudent cash balance to cover contingent wind-up costs, however, no amount has been recorded in the statement of revenue and expenditures in respect of expenses which might be incurred should funding not be obtained. Further cash balances are maintained to complete the current expenditure commitments incurred under the organization's mandate.

13. Pension Plans

The combined expense for all organization pension plans for the year was \$659,916 (2017 - \$643,420); this includes \$75,949 (2017 - \$72,525) under the RRSP plan and \$583,967 (2017 - \$570,895) under the Queen's University Plan.

As at August 31, 2017, the Queen's University Plan had a solvency deficiency of \$313 million.

Canadian Microelectronics Corporation/ Société Canadienne de Micro-électronique

Notes to Non-consolidated Financial Statements

March 31, 2018

14. Financial Instruments

Financial instruments are financial assets or liabilities of the organization where, in general, the organization has the right to receive cash or another financial asset from another party or the organization has the obligation to pay another party cash or other financial assets.

Financial instruments consist of cash, accounts receivable, due from emSYSCAN, advance to DMT Microsystems Corporation, Funds owing to Queen's University and accounts payable and accrued liabilities.

The organization initially recognized its financial instruments at fair value and subsequently measures them at amortized cost.

Financial assets measured at cost or amortized cost are tested for impairment at the end of each year and the amount of the write-down is recognized in net income. The previously recognized impairment loss may be reversed to the extent of the improvement and the amount of the reversal is recognized in net income. The reversal may be recorded provided it is no greater than the amount that had been previously reported as a reduction in the asset and it does not exceed original cost.

Currency Risk

The organization is exposed to currency risk as a result of its significant foreign purchases. The risk arises as a result of fluctuations of the organization's home currency, Canadian dollar, against those in which it is acquiring goods. As noted in Note 7 and 9, the organization is exposed to this risk at year-end as a result of amounts owing in foreign currency for existing obligations and those relating to contractual obligations that have been issued.

The organization attempts to mitigate this risk by acquiring foreign currencies to help offset fluctuations in foreign exchange rates from the time purchase orders are issued to when payment is made. At year-end, the organization does not have sufficient foreign currencies held to cover those foreign currency obligations.

15. Financial Statement Presentation

In some instances, comparative figures have been reclassified in order to comply with current year's presentation.