

**Sylvia Fedoruk Canadian
Centre for Nuclear
Innovation Inc.**

Financial Statements
March 31, 2018



June 7, 2018

Independent Auditor's Report

**To the Member of
Sylvia Fedoruk Canadian Centre for Nuclear Innovation Inc.**

We have audited the accompanying financial statements of Sylvia Fedoruk Canadian Centre for Nuclear Innovation Inc., which comprise the statement of financial position as at March 31, 2018 and the statements of operations and unrestricted net assets and cash flows and schedule of expenditures for the year then ended, and the related notes which comprise 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.

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PwC refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Sylvia Fedoruk Canadian Centre for Nuclear Innovation Inc. as at March 31, 2018 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

PricewaterhouseCoopers LLP
Chartered Professional Accountants

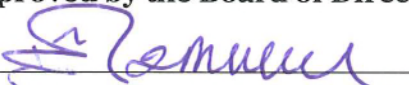

Sylvia Fedoruk Canadian Centre for Nuclear Innovation Inc.

Statement of Financial Position

As at March 31, 2018

| | 2018 \$ | 2017 \$ |
|---|-------------------|-------------------|
| Assets | | |
| Current assets | | |
| Cash held by University of Saskatchewan (note 8) | 10,984,901 | 11,862,808 |
| Accounts receivable (note 8) | 1,108,807 | 365,613 |
| Prepaid expenses | - | 15,408 |
| | <u>12,093,708</u> | <u>12,243,829</u> |
| Cash held by University of Saskatchewan (note 3) | 50,000 | 25,000 |
| Tangible capital assets (note 4) | 416,104 | 37,058 |
| Asset retirement obligation (note 5) | <u>609,395</u> | <u>582,752</u> |
| | <u>13,169,207</u> | <u>12,888,639</u> |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | <u>356,700</u> | 51,337 |
| Accrued decommissioning costs (note 5) | 671,315 | 613,503 |
| Deferred contributions (note 6) | <u>12,091,192</u> | <u>12,198,799</u> |
| | 13,119,207 | 12,863,639 |
| Net assets | | |
| Unrestricted net assets | - | - |
| Internally restricted net assets (note 3) | <u>50,000</u> | <u>25,000</u> |
| | <u>13,169,207</u> | <u>12,888,639</u> |
| Economic dependence (note 1) | | |
| Operating lease (note 7) | | |
| Commitments (note 10) | | |

Approved by the Board of Directors

 Director  Director

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

Sylvia Fedoruk Canadian Centre for Nuclear Innovation Inc.

Statement of Operations and Unrestricted Net Assets

For the year ended March 31, 2018

| | 2018 | 2017 |
|---|------------------|------------------|
| | \$ | \$ |
| Revenue | | |
| Innovation Saskatchewan grant – restricted (note 9) | 3,517,607 | 4,217,732 |
| Radioisotope product sales | 728,196 | 374,934 |
| Interest income (note 8) | 90,889 | 56,189 |
| University of Saskatchewan grant (notes 8 and 10) | 25,000 | 753,751 |
| Other income | 29 | 32,596 |
| | <u>4,361,721</u> | <u>5,435,202</u> |
| Expenditures (Schedule) | | |
| Cyclotron (notes 8 and 10c) | 2,302,213 | 2,072,700 |
| Grants (notes 8 and 10) | 1,466,709 | 2,655,611 |
| Operations (note 8) | 567,799 | 681,891 |
| | <u>4,336,721</u> | <u>5,410,202</u> |
| Excess of revenue over expenditures | 25,000 | 25,000 |
| Unrestricted net assets – Beginning of year | - | - |
| Transfer to internally restricted net assets (note 3) | <u>(25,000)</u> | <u>(25,000)</u> |
| Unrestricted net assets – End of year | <u>-</u> | <u>-</u> |

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

Sylvia Fedoruk Canadian Centre for Nuclear Innovation Inc.

Schedule of Expenditures

For the year ended March 31, 2018

| | 2018 | 2017 |
|--|------------------|------------------|
| | \$ | \$ |
| Expenditures | | |
| Cyclotron (note 10c) | | |
| Salaries and benefits | 846,994 | 800,641 |
| Supplies and services | 515,827 | 464,207 |
| Operating license (note 8) | 445,378 | 398,824 |
| Externally contracted services and consultants | 385,178 | 355,985 |
| Amortization of tangible capital assets | 58,365 | 4,229 |
| Travel | 19,302 | 18,063 |
| Accretion of accrued decommissioning costs (note 5) | 16,227 | 15,809 |
| Amortization of asset retirement obligation (note 5) | 14,942 | 14,942 |
| | <u>2,302,213</u> | <u>2,072,700</u> |
| Grants (notes 8 and 10) | | |
| Program grants | 840,000 | 1,510,000 |
| Project grants | 626,709 | 846,738 |
| Cyclotron capital grants | - | 298,873 |
| | <u>1,466,709</u> | <u>2,655,611</u> |
| Operations | | |
| Externally contracted services and consultants | 200,446 | - |
| Supplies and services | 138,679 | 120,707 |
| Travel | 97,822 | 54,051 |
| Salaries and benefits | 86,184 | 456,160 |
| Rent and occupancy (note 7) | 39,130 | 40,230 |
| Amortization of tangible capital assets | 5,538 | 10,743 |
| | <u>567,799</u> | <u>681,891</u> |
| | <u>4,336,721</u> | <u>5,410,202</u> |

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

Sylvia Fedoruk Canadian Centre for Nuclear Innovation Inc.

Statement of Cash Flows

For the year ended March 31, 2018

| | 2018 \$ | 2017 \$ |
|--|------------------|-----------------|
| Cash provided by (used in) | | |
| Operating activities | | |
| Excess of revenue over expenditures for the year | 25,000 | 25,000 |
| Items not affecting cash | | |
| Amortization of tangible capital assets | 63,903 | 14,972 |
| Accretion of accrued decommissioning costs (note 5) | 16,227 | 15,809 |
| Amortization of asset retirement obligation (note 5) | 14,942 | 14,942 |
| | <u>120,072</u> | <u>70,723</u> |
| Changes in non-cash working capital items | | |
| Cash held by University of Saskatchewan | 852,907 | 586,003 |
| Accounts receivable | (743,194) | (355,667) |
| Prepaid expenses | 15,408 | (12,160) |
| Accounts payable and accrued liabilities | 305,363 | (50,381) |
| Deferred contributions | (107,607) | (217,732) |
| | <u>322,877</u> | <u>(49,937)</u> |
| | <u>442,949</u> | <u>20,786</u> |
| Investing activities | | |
| Purchase of tangible capital assets | <u>(442,949)</u> | <u>(20,786)</u> |
| Net change in cash | - | - |
| Cash – Beginning of year | <u>-</u> | <u>-</u> |
| Cash – End of year | <u>-</u> | <u>-</u> |

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

Sylvia Fedoruk Canadian Centre for Nuclear Innovation Inc.

Notes to Financial Statements

March 31, 2018

1 Nature of business

The Sylvia Fedoruk Canadian Centre for Nuclear Innovation Inc. (the “corporation” or “Fedoruk Centre”) was originally incorporated as a non-profit organization under the Canadian Not-for-Profit Corporations Act on December 20, 2011 as the Canadian Centre for Nuclear Innovation Inc., with its parent company and sole member being the University of Saskatchewan (“U of S”). On October 5, 2012 the corporation was registered with Corporations Canada as the Sylvia Fedoruk Canadian Centre for Nuclear Innovation Inc. The corporation qualifies as a tax exempt organization under the Income Tax Act.

The mandate of the Fedoruk Centre is to place Saskatchewan among global leaders in nuclear research, development and training through investments in partnerships with academia and industry, for maximum societal and economic benefit. This purpose is accomplished through investment in projects and programs of Saskatchewan-based, publicly-funded institutions and their partners and through operating the Saskatchewan Centre for Cyclotron Sciences (“SCCS”), which is owned by the U of S, for research and clinical applications. The Fedoruk Centre began the regulatory commissioning of the cyclotron and radioisotope production facility in October of 2014 and achieved operational status in May of 2016.

The operation of the corporation is economically dependent on the funding from Innovation Saskatchewan (note 9).

2 Summary of significant accounting policies

a) Basis of presentation

These financial statements include the accounts of the corporation and are presented in accordance with Canadian accounting standards for not-for-profit organizations (“ASNPO”).

b) Use of estimates

The preparation of financial statements in conformity with ASNPO 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 date of the financial statements and the reported amount of revenue and expenditures during the reporting period. Actual results could differ from these estimates. Significant financial statement items that require estimates include the asset retirement obligation and accrued decommissioning costs.

c) Tangible capital assets

Tangible capital assets are recorded at cost and amortized over their expected useful lives. Computer equipment and software is amortized using the declining balance method at a rate of 30%. Furnishings and equipment are amortized using the straight-line method at a rate of 20%.

Sylvia Fedoruk Canadian Centre for Nuclear Innovation Inc.

Notes to Financial Statements

March 31, 2018

d) Revenue recognition and grant expenditures

The corporation follows the deferral method of accounting for contributions which includes funding from Innovation Saskatchewan and other funding sources. Deferred contributions related to expenses of future periods represent unspent externally restricted funding and any related investment income, which are for the purposes of providing funding to eligible recipients and the payment of operating and capital expenditures in future periods. Restricted contributions related to tangible capital assets are recognized as revenue on the same basis as the tangible capital assets are amortized. 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.

Revenue from the sale of radioisotope products of the cyclotron is recognized when significant risks and rewards of ownership have been transferred to the purchaser and reasonable assurance exists regarding the measurement of the consideration that will be derived from the sale of the product.

Investment income earned on the cash held by University of Saskatchewan is recognized as revenue when the U of S can measure and transfer the income to the corporation.

Contributions of materials and services are recognized only when a fair value can be reasonably estimated and when the materials and services are used in the normal course of the corporation's operations and would otherwise have been purchased.

Grants are recognized as expenditures when the current year grant commitment to the recipient is due under the terms of the grant agreement.

e) Financial instruments

Financial assets and financial liabilities consisting of cash held by University of Saskatchewan, accounts receivable, and accounts payable and accrued liabilities are initially recognized at fair value and subsequent measurement is at amortized cost. The corporation does not consider itself to have significant exposure to credit risk, currency risk, interest rate risk, liquidity risk, market risk or other price risk. Financial assets are tested for impairment at the end of each reporting period when there are indications that an asset may be impaired.

f) Decommissioning and asset retirement obligation

During the year ended March 31, 2017, the cyclotron received its CNSC operating license. The corporation is required to decommission the currently licensed prescribed equipment, facility and nuclear substances when operations cease and has accounted for the estimated costs associated with this requirement.

3 Internally restricted net assets

As provided for under the corporation's policy for funding the cyclotron decommissioning liability, the corporation allocates \$25,000 annually from unrestricted net assets to internally restricted net assets to fund any future decommissioning liability.

Sylvia Fedoruk Canadian Centre for Nuclear Innovation Inc.

Notes to Financial Statements

March 31, 2018

4 Tangible capital assets

| | | | 2018 | 2017 |
|---------------------------------|---------|--------------------------|----------------|----------------|
| | Cost | Accumulated amortization | Net book value | Net book value |
| | \$ | \$ | \$ | \$ |
| Equipment | 332,910 | 49,049 | 283,861 | 30,359 |
| Computer equipment and software | 169,175 | 36,932 | 132,243 | 3,260 |
| Furnishings | 21,922 | 21,922 | - | 3,439 |
| | 524,007 | 107,903 | 416,104 | 37,058 |

5 Asset retirement obligation and accrued decommissioning costs

As a component of its Class II Nuclear Facilities and Prescribed Equipment License from the CNSC, the corporation recognizes the asset retirement obligation related to the expected future cost of decommissioning the currently licensed prescribed equipment, facility and nuclear substances. The asset retirement obligation will be amortized on a straight line basis over the expected remaining useful life. The corporation expects the facility to operate for a 40 year period, which commenced during the year ended March 31, 2017.

The estimated undiscounted future cash flows required to decommission the facility are expected to be approximately \$1,132,000 (2017 - \$900,000). Accretion of \$16,227 and amortization of \$14,942 are included in decommissioning expense for the year ended March 31, 2018. The present value of the asset retirement obligation and the liability for accrued decommissioning costs has been calculated using a credit adjusted risk free interest rate of 2.7% and an inflation rate estimate of 1.3%.

| | | | 2018 | 2017 |
|-----------------------------|---------|--------------------------|----------------|----------------|
| | Cost | Accumulated amortization | Net book value | Net book value |
| | \$ | \$ | \$ | \$ |
| Asset retirement obligation | 639,279 | 29,884 | 609,395 | 582,752 |

Sylvia Fedoruk Canadian Centre for Nuclear Innovation Inc.

Notes to Financial Statements

March 31, 2018

A reconciliation of the accrued decommissioning costs is as follows:

| | 2018 \$ | 2017 \$ |
|---------------------------------------|------------|------------|
| Opening accrued decommissioning costs | 613,503 | - |
| Estimate of decommissioning costs | 41,585 | 597,694 |
| Accretion expense | 16,227 | 15,809 |
| | <hr/> | <hr/> |
| Closing accrued decommissioning costs | 671,315 | 613,503 |

6 Deferred contributions

The corporation receives funding from Innovation Saskatchewan to be held, administered and distributed in accordance with the funding agreement. Deferred contributions related to expenses of future periods represent the unspent externally restricted funding, which is for the purpose of providing funding to eligible recipients and the payment of operating and capital expenditures in future periods. The changes in the deferred contributions balance are as follows:

| | Operations \$ | Cyclotron \$ | 2018 \$ |
|--|------------------|-----------------|------------|
| Opening deferred contributions | 9,650,199 | 2,548,600 | 12,198,799 |
| Contributions during the year: | | | |
| Innovation Saskatchewan (note 9) | 1,800,000 | 1,610,000 | 3,410,000 |
| | <hr/> | <hr/> | <hr/> |
| Total contributions available | 11,450,199 | 4,158,600 | 15,608,799 |
| Less: Amount recognized as revenue in current year | 1,943,590 | 1,574,017 | 3,517,607 |
| | <hr/> | <hr/> | <hr/> |
| Closing deferred contributions | 9,506,609 | 2,584,583 | 12,091,192 |
| | <hr/> | <hr/> | <hr/> |
| | Operations \$ | Cyclotron \$ | 2017 \$ |
| Opening deferred contributions | 9,625,044 | 2,791,487 | 12,416,531 |
| Contributions during the year: | | | |
| Innovation Saskatchewan (note 9) | 3,000,000 | 1,000,000 | 4,000,000 |
| | <hr/> | <hr/> | <hr/> |
| Total contributions available | 12,625,044 | 3,791,487 | 16,416,531 |
| Less: Amount recognized as revenue in current year | 2,974,845 | 1,242,887 | 4,217,732 |
| | <hr/> | <hr/> | <hr/> |
| Closing deferred contributions | 9,650,199 | 2,548,600 | 12,198,799 |

Sylvia Fedoruk Canadian Centre for Nuclear Innovation Inc.

Notes to Financial Statements

March 31, 2018

7 Operating lease

On August 30, 2016, the corporation entered into a lease agreement for office space. The term of the lease agreement is two years and seven months and the future minimum annual lease payments are \$39,560 per year until the expiry of the lease agreement on March 31, 2019.

8 Related party transactions

During the year, the corporation entered into transactions with its parent company and sole member, the U of S. The corporation purchased goods and services from the U of S in the amount of \$53,059 (2017 – \$38,490) and incurred operating license costs for the cyclotron of \$445,378 (2017 – \$398,824). In addition, cyclotron capital costs of nil (2017 – \$452,210) incurred by the corporation were reimbursed by the U of S and are recorded at their net amount of nil in expenditures.

Interest income of \$90,889 (2017 – \$56,189) was received from the U of S based on the corporation's funds held in bank accounts administered by the U of S. The corporation received \$25,000 (2017 – \$753,751) in grants during the year from the U of S of which nil is included in accounts receivable at March 31, 2018 (2017 – \$242,751). Of the grants made during the year by the corporation, \$1,047,007 (2017 – \$2,140,534) were made to the U of S, including individuals or entities related to or employed by the U of S.

The related party transactions described above are measured at carrying amounts. All funds received by the corporation are held in, and payments to vendors of the corporation are made from, bank accounts administered by the U of S, which are included on the statement of financial position as "cash held by University of Saskatchewan".

9 Innovation Saskatchewan grant

The Fedoruk Centre signed a funding agreement with Innovation Saskatchewan on March 2, 2012 for a total of \$30 million to be disbursed over 7 years, from January 2, 2012 to March 31, 2019. Funds are to be used solely for the purposes of the project as defined in the agreement. The agreement defines that all funds must be returned to the funder if there is non-compliance or the agreement is terminated by the funder, and at the application of the Fedoruk Centre the funder may elect to limit repayment to an amount not exceeding actual and reasonable project expenses paid by the Fedoruk Centre.

The funding agreement with Innovation Saskatchewan was subsequently amended to allow the Fedoruk Centre to redirect up to \$6.3 million of the original \$30 million to assist the U of S with cash flow for the cyclotron capital project. If capital costs for the cyclotron are less than \$6.3 million, any remaining amount will be returned to the Fedoruk Centre's operating budget. The amendment also provides for \$1 million per year for three years, in addition to the original \$30 million, for cyclotron facility operating costs and \$800,000 for the purchase of scientific equipment and renovations to research facilities.

A final payment of \$1,090,000 is scheduled to be received from Innovation Saskatchewan during the year ending March 31, 2019.

Sylvia Fedoruk Canadian Centre for Nuclear Innovation Inc.

Notes to Financial Statements

March 31, 2018

10 Commitments

a) Project grants

The Fedoruk Centre provides grants to eligible individuals and their institutions for the purpose of nuclear research, development and training. Project grant awards are funded over multiple years. The total maximum commitment made during the year ended March 31, 2018 was approximately \$216,000 (2017 – \$1,159,000). Project grants disbursed during the year ended March 31, 2018 were \$626,709 (2017 – \$846,738). The remaining maximum commitment on all projects is approximately \$615,000 (2017 – \$1,024,000).

Based on the above, total anticipated maximum commitments over the next three years for project grants are as follows:

| | \$ |
|------|---------|
| 2019 | 436,000 |
| 2020 | 124,000 |
| 2021 | 55,000 |

b) Program grants

During the year ended March 31, 2018, a program grant agreement was signed between the Fedoruk Centre and the Johnson-Shoyama Graduate School of Public Policy under which the Fedoruk Centre will fund research, scholarship, policy outreach and public engagement related to nuclear science and technology. The Fedoruk Centre's total maximum commitment is \$2 million, payable in annual instalments up to June 30, 2019, of which \$600,000 of grant expenditures had been incurred as of March 31, 2018.

During the year ended March 31, 2016, a program grant agreement was signed between the Fedoruk Centre, the University of Regina and the University of Saskatchewan under which the Fedoruk Centre will fund three research chairs for five years, beginning in 2015 and ending June 30, 2020, and will fund ancillary support to accelerate innovation in nuclear imaging tools and techniques and to advance research, development and training in nuclear medicine. The Fedoruk Centre's total maximum commitment is \$5,466,444 over the term of the agreement, of which \$3,846,444 of grant expenditures had been incurred as of March 31, 2018 (2017 - \$3,606,444).

Total program grants disbursed during the year ended March 31, 2018 were \$840,000 (2017 – \$1,510,000).

Sylvia Fedoruk Canadian Centre for Nuclear Innovation Inc.

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Based on the above, total anticipated maximum commitments over the next three years for program grants are as follows:

| | \$ |
|------|-----------|
| 2019 | 1,236,000 |
| 2020 | 1,242,000 |
| 2021 | 542,000 |

c) Cyclotron

The Fedoruk Centre has entered into an operating license agreement with the U of S for the cyclotron facility. The agreement calls for the Fedoruk Centre to be responsible for the operation, maintenance and eventual decommissioning of the cyclotron facility. During the term of the license agreement, an annual license fee will be paid to the U of S by the Fedoruk Centre based on costs that the U of S incurs on the facility.

The operating license agreement includes a requirement for a separate funding agreement to provide the U of S with funding in the form of grant contributions of up to \$6.3 million for the construction of the cyclotron facility. Funds from other sources are to be fully exhausted prior to any funds from the Fedoruk Centre being utilized. Each instalment, a maximum of \$2.1 million, will be adjusted according to need. The balance of the \$6.3 million not required for the capital project will be returned to the Fedoruk Centre's operating account. During the year ended March 31, 2018, grants of nil (2017 – \$298,873) were made.

During the year ended March 31, 2018, the Fedoruk Centre amended its agreement for the provision of cyclotron maintenance services. The term of the agreement is from February 1, 2018 to January 31, 2019 and the cost is \$125,000 per year.

During the year ended March 31, 2018, the Fedoruk Centre entered into a contract for the provision of upgrades to the cyclotron facility room. The total cost of the project is \$806,936 and is expected to be incurred during the year ending March 31, 2019.

During the year ended March 31, 2018, the Fedoruk Centre entered into a service agreement for the provision of lab equipment. The term of the agreement is from August 30, 2017 to August 31, 2022. The minimum future commitments under the agreement are as follows:

| | \$ |
|------|--------|
| 2019 | 33,660 |
| 2020 | 34,333 |
| 2021 | 35,020 |
| 2022 | 35,720 |

Sylvia Fedoruk Canadian Centre for Nuclear Innovation Inc.

Notes to Financial Statements

March 31, 2018

d) Other

During the year ended March 31, 2018, the Fedoruk Centre entered into a consulting services agreement with Canadian Nuclear Laboratories to support the Canadian Neutron Initiative. The term of the agreement is from January 1, 2018 to March 31, 2019, and the total anticipated maximum commitment to the end of the agreement is \$159,510.