Financial Statements of

MITACS INC.

And Independent Auditor's report thereon

Year ended March 31, 2021

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INDEPENDENT AUDITORS' REPORT

To the Directors of Mitacs Inc.

Opinion

We have audited the financial statements of Mitacs Inc. (the “Entity"), which comprise:

- the statement of financial position as at March 31, 2021
- the statement of operations for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2021, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-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 ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

We are independent of the Entity 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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' report and 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 the 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 Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosure 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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Entity 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.
- 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.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
July 7, 2021

MITACS INC.

Statement of Financial Position

March 31, 2021, with comparative information for 2020

	Note	2021	2020
Assets			
Current assets:			
Cash and cash equivalents		$ 144,258,687	$ 108,925,242
Accounts receivable		3,356,400	270,578
Prepaid expenses		1,479,325	222,189
Current portion of contributions receivable	4	58,016,960	40,741,173
		207,111,372	150,159,182
Contributions receivable	4	20,249,365	11,518,638
Capital assets	5	1,325,412	1,334,637
		$ 228,686,149	$ 163,012,457
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities		$ 5,112,941	$ 4,403,005
Government remittances payable		1,487,334	700,627
Current portion of awards payable	6	101,246,010	55,297,393
Deferred contributions	7	52,906,731	61,562,012
		160,753,016	121,963,037
Awards payable	6	39,095,729	21,902,286
		199,848,745	143,865,323
Net assets:			
Invested in capital assets		1,325,412	1,334,637
Internally restricted	8	8,500,000	6,500,000
Unrestricted		19,011,992	11,312,497
		28,837,404	19,147,134
Nature of operations and economic dependence	2		
Commitments	9		
Subsequent event	12		
		$ 228,686,149	$ 163,012,457

See accompanying notes to financial statements.

Approved on behalf of the Board:

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Philippe Gervais
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Director

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Director

MITACS INC.

Statement of Operations

Year ended March 31, 2021, with comparative information for 2020

	Note	2021	2020
Revenue:			
Earned program contributions:			
Federal government	10	$ 112,492,909	$ 70,333,636
Provincial governments	10	46,156,150	23,534,423
Participant organizations	10	92,628,796	59,869,914
International organizations		51,000	3,940,981
University partners		7,984,055	823,821
University member fees		2,704,830	2,648,400
Interest income		762,345	1,593,292
Other		2,930	20,306
		262,783,015	162,764,773
Expenses (recoveries):			
Program awards:			
Accelerate		193,967,288	105,430,223
Globalink		5,906,621	15,668,148
Elevate		12,412,821	10,362,986
Training		12,746,126	2,761,853
Career connect		-	(47,668)
Canadian science policy fellowship		697,839	1,460,529
Converge		(25,000)	(124,349)
Innovation initiatives		231,381	1,257,766
Program services		4,432,394	4,496,111
Stakeholder relations		8,605,210	7,985,090
Corporate services		13,641,120	12,520,211
Amortization of capital assets		476,945	348,612
		253,092,745	162,119,512
Excess of revenue over expenses		$ 9,690,270	$ 645,261

See accompanying notes to financial statements.

MITACS INC.

Statement of Changes in Net Assets

Year ended March 31, 2021, with comparative information for 2020

	Invested in capital assets	Internally restricted	Unrestricted	Total
Balance, March 31, 2019	$ 1,353,268	$ 6,000,000	$ 11,148,605	$ 18,501,873
Excess (deficiency) of revenue over expenses	(348,612)	-	993,873	645,261
Acquisition of capital assets	329,981	-	(329,981)	-
Internally imposed restrictions (note 8)	-	500,000	(500,000)	-
Balance, March 31, 2020	1,334,637	6,500,000	11,312,497	19,147,134
Excess (deficiency) of revenue over expenses	(476,945)	-	10,167,215	9,690,270
Acquisition of capital assets	467,720	-	(467,720)	-
Internally imposed restrictions (note 8)	-	2,000,000	(2,000,000)	-
Balance, March 31, 2021	$ 1,325,412	$ 8,500,000	$ 19,011,992	$ 28,837,404

See accompanying notes to financial statements.

MITACS INC.

Statement of Cash Flows

Year ended March 31, 2021, with comparative information for 2020

	2021	2020
Cash provided by (used in)		
Operating activities:		
Excess of revenue over expenses	$ 9,690,270	$ 645,261
Amortization of capital assets, an item not involving cash	476,945	348,612
Change in non-cash operating working capital:		
Accounts receivable	(3,085,822)	1,754,351
Prepaid expenses	(1,257,136)	125,371
Contributions receivable	(26,006,514)	(11,241,159)
Accounts payable and accrued liabilities	709,936	395,677
Government remittances payable	786,707	(698,321)
Awards payable	63,142,060	13,590,472
Deferred contributions	(8,655,281)	19,662,126
	35,801,165	24,582,390
Investing activities:		
Acquisition of capital assets	(467,720)	(329,981)
Increase in cash and cash equivalents	35,333,445	24,252,409
Cash and cash equivalents, beginning of year	108,925,242	84,672,833
Cash and cash equivalents, end of year	$ 144,258,687	$ 108,925,242

See accompanying notes to financial statements.

MITACS INC.

Notes to Financial Statements

Year ended March 31, 2021

1. Purpose of the Organization:

Mitacs Inc. (the “Organization”) was incorporated under the Canada Corporations Act and is exempt from taxes under the Income Tax Act (Canada). The Organization continued under the Canada Not-For-Profit Corporations Act on June 19, 2013.

The purpose of the Organization is to support and increase Canadian productivity by driving private sector innovation and developing and deploying talent into the Canadian economy. This is done through experiential skills development for Canadian innovators; facilitating technology transfer, commercialization, and entrepreneurship by fostering the creation and application of ideas through cooperative research partnerships; and promoting collaborative networks through partnerships between academia, industry, government, and other organizations in Canada and abroad.

2. Nature of operations and economic dependence:

The Organization manages or operates various programs designed to facilitate research collaboration between participant organizations and academia for the training of the next generation of young Canadian researchers. Externally funded active programs include internships, international and research partnerships, and skills enhancement.

(a) Mitacs Accelerate program:

Mitacs Accelerate connects companies and not-for-profit organizations with graduate students and postdoctoral fellows who apply their specialized expertise to research challenges.

(b) Mitacs Globalink program:

Mitacs Globalink connects researchers from around the world with Canadian universities. The program offers two-way mobility between Canada and select partner countries for undergraduate and graduate students.

(c) Mitacs Elevate program:

Mitacs Elevate provides leadership, business, and research management skills training to recent postdoctoral fellows.

The Organization receives contributions from national, provincial and international organizations, participant organizations and universities to fund research programs, student training, and operational expenditures. A significant portion of its funding is from federal and provincial government contributions. During the year, the Organization had four (2020 - four) government contracts which accounted for approximately 50% (2020 - 57%) of revenue. The Organization may not be able to maintain its current levels of activities should this funding be significantly reduced or ended.

3. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations and incorporate the following significant accounting policies.

(a) Revenue recognition:

The Organization follows the deferral method of accounting for contributions.

Externally restricted government and participant contributions received for programs and training are recognized as revenue in the year in which the related program expenses are incurred. Program expenses are recorded as liabilities when the research project has received research endorsement; participant organization contributions are committed; and all program eligibility and file requirements have been met. The Organization records an allowance for cancellation based on management's best estimate using historical cancellations incurred.

Unrestricted university member fees are recognized as revenue over the fiscal year to which they relate.

Externally restricted investment income earned on government funding is recorded as deferred contributions and recognized as program contributions revenue in the year in which the related program expenses are incurred. Unrestricted investment income is recognized as revenue when earned.

(b) Cash and cash equivalents:

Bank balances and term deposits with a maturity period of 90 days or less from the date of acquisition are presented under cash and cash equivalents.

Cash contributions which are reserved for future award expenditures, internally restricted costs and cash contributions received and held in trust by the Organization on behalf of other organizations are classified as restricted cash.

(c) Capital assets:

Capital assets are measured at cost on initial recognition. Development costs directly attributable to software are capitalized when incurred. When a capital asset no longer contributes to the Organization's ability to provide services, its carrying amount is written down to its fair value. The Organization's reviews the carrying amount of capital assets for impairment whenever events or changes in circumstances indicate that the asset no longer contributes to the Organization's ability to provide services, or that the value of future economic benefits or service potential associated with the asset is less than its carrying amount. If such conditions exist, an impairment loss is measured and recorded in the statement operations at the amount by which the carrying amount of the net asset exceeds its fair value or replacement cost.

3. Significant accounting policies (continued):

(c) Capital assets (continued):

Capital assets are amortized on a straight-line basis using the following annual rates:

	Rate
Equipment and furnishings	3 - 5 years
Software	3 - 5 years

(d) Measurement uncertainty

The preparation of financial statements 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 amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates and assumptions include the allowance for cancellations. Actual results could differ from those estimates.

(e) Financial instruments:

Financial assets and financial liabilities are initially measured at fair value. Subsequently, all financial assets and financial liabilities are measured at amortized costs, except for cash and cash equivalents, which management has elected to measure at fair value. Changes in fair value are recognized in the statement of operations.

Financial assets measured at fair value include cash and cash equivalents.

Financial assets measured at amortized cost include accounts receivables and contributions receivable.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, government remittances payable and awards payable.

(f) Allocation of expenses:

The Organization records a number of its expenses by program. The costs of each program include stipend, travel and other research expenses that are directly related to the program.

The Organization incurs program support expenses, such as grant applications and management, research and program management costs that directly support programs. These costs are not allocated to program awards. These expenses are reported under the caption "Program services" on the statement of operations.

The Organization incurs stakeholder support expenses that indirectly support programs. These costs are not allocated to program awards. These expenses are reported under the caption "Stakeholder relations" on the statement of operations.

3. Significant accounting policies (continued):

(f) Allocation of expenses (continued):

The Organization incurs general support expenses, such as finance, administration, human resources, marketing and communications, information technology and costs, that are common to the administration of the Organization. These costs are not allocated to program awards. These expenses are reported under the caption “Corporate services” on the statement of operations.

4. Contributions receivable:

	2021	2020
Government contributions receivable	$ 21,730,647	$ 9,416,436
Participant contributions receivable	64,467,821	49,979,019
Allowance for cancellations (note 10)	(7,932,143)	(7,135,644)
	78,266,325	52,259,811
Less current portion:		
Contributions receivable	58,016,960	40,741,173
	$ 20,249,365	$ 11,518,638

5. Capital assets:

	Cost	Accumulated depreciation	2021 Net book value	2020 Net book value
Equipment and furnishings	$ 2,508,476	$ 1,347,834	$ 1,160,642	$ 86,504
Software	206,694	41,924	164,770	1,248,133
	$ 2,715,170	$ 1,389,758	$ 1,325,412	$ 1,334,637

6. Awards payable:

	2021	2020
Awards payable	$ 157,712,000	$ 104,521,572
Allowance for cancellations	(17,370,261)	(27,321,893)
	140,341,739	77,199,679
Less current portion:		
Awards payable	101,246,010	55,297,393
	$ 39,095,729	$ 21,902,286

7. Deferred contributions:

Deferred contributions represent externally restricted and unspent contributions for the future funding of awards and training.

March 31, 2021	Federal Government	Provincial Governments	Participant Organizations	Other Funders	Total
Beginning of year	$ 22,579,437	$ 18,328,855	$ 19,722,892	$ 930,828	$ 61,562,012
Funding received and receivable	113,616,503	21,893,426	18,556,515	10,327,805	162,394,249
Revenue recognized	(106,545,887)	(32,019,977)	(27,736,858)	(6,746,808)	(173,049,530)
End of year	$ 29,650,053	$ 8,202,304	$ 10,542,549	$ 4,511,825	$ 52,906,731

March 31, 2020	Federal Government	Provincial Governments	Participant Organizations	Other Funders	Total
Beginning of year	$ 18,168,274	$ 11,842,120	$ 11,434,000	$ 445,492	$ 41,889,886
Funding received and receivable	74,744,799	29,540,318	33,785,114	1,668,927	139,739,158
Revenue recognized	(70,333,636)	(23,053,583)	(25,496,222)	(1,183,591)	(120,067,032)
End of year	$ 22,579,437	$ 18,328,855	$ 19,722,892	$ 930,828	$ 61,562,012

For federal and provincial governments and participant organizations, deferred contributions are adjusted for estimated future cancellations of $12,289,630 (2020 - $24,148,941).

During the year ended March 31, 2021, $15.7 million in contributions was received or is receivable from the Ministère de l'Économie et de l'Innovation on behalf of the Government of Quebec to support units approved through the Accelerate, Accelerate International, Elevate, Globalink Research Internship and Globalink Research Award programs. As of March 31, 2021, approximately $8.7 million has been recognized as revenue.

8. Internally restricted net assets:

The board of directors of the Organization resolved to restrict funds as follows:

	2021	2020
Cut-back costs	$ 6,500,000	$ 4,500,000
Future capital projects	1,000,000	1,000,000
Innovation projects	1,000,000	1,000,000
	$ 8,500,000	$ 6,500,000

Cut-back costs (previously shut-down costs) are reserves to be used for administrative costs, severance payments and other expenses associated with a decrease in the Organizations activities.

Funds for future capital projects are intended to be used for the upgrade of internal information systems and other capital development projects.

Innovation projects are reserves to be used to enable the piloting of new ideas or programs consistent with the vision and mandate of the Organization.

The Organization may not use these internally restricted amounts for any other purpose without the approval of the board of directors.

During the year ended March 31, 2021, the board of directors internally restricted $2,000,000 (2020 - $ 500,000) to increase the funds available for cut-back costs, 2020 restricted fund was for innovation projects.

9. Commitments:

(a) Program delivery commitments:

The Organization has received and processed Mitacs Accelerate internship applications which are in various stages of completion and which have not been approved as at March 31, 2021. As at March 31, 2021, the Organization has processed approximately $144.3 million (2020 - $ 73.7 million) of these internship applications, of which it expects that approximately $55.8 million (2020 - $ 21.5 million) will be approved within the next 12 months. The Organization will be required to secure sufficient government and participant organization contributions to fund these internships if they are completed and approved.

9. Commitments (continued):

(b) Operating lease commitments:

The Organization leases office space in four locations across Canada. Future minimum lease payments required over the remaining term of these leases are as follows.

2022	$	756,541
2023		655,953
	$	1,412,494

10. Allowance for cancellations:

For externally restricted government and participant contributions, revenue is adjusted for estimated future cancellations. The impact of the estimates for the fiscal year are as follows:

Revenue	Gross	Cancellation allowance	2021
Federal government	$ 121,233,786	$ (8,740,877)	$ 112,492,909
Provincial governments	49,704,903	(3,548,753)	46,156,150
Participant organizations	100,560,939	(7,932,143)	92,628,796

Revenue	Gross	Cancellation allowance	2020
Federal government	$ 84,770,285	$ (14,436,649)	$ 70,333,636
Provincial governments	28,038,157	(4,503,734)	23,534,423
Participant organizations	72,214,116	(12,344,202)	59,869,914

11. Financial risks and concentration of risks:

The Organization is exposed to various risks through its financial instruments. The significant risks are detailed below.

(a) Credit risk:

Credit risk is the risk that a counterparty may default on its contractual obligations resulting in a financial loss.

Cash and cash equivalents consist of amounts held at a major Canadian financial institution and in trust by a major Canadian university and the associated credit risk is considered minimal.

Accounts receivable consist of amounts due from Canadian universities and other organizations and the associated credit risk is considered minimal.

Government contributions receivable consists of amounts due from federal and provincial governments and government agencies. Credit risk associated with amounts due from federal and provincial governments and government agencies is considered minimal.

Participant organization contributions receivable consist of amounts due from private and public sector participant organizations. The Organization normally receives the required matching participant organization contributions immediately before the commencement date of an internship.

(b) Liquidity risk:

Liquidity risk is the risk of being unable to meet cash requirements or to fund obligations as they become due. The Organization is exposed to liquidity risk with respect to the financial liabilities recognized in the statement of financial position. The Organization manages its liquidity risk by monitoring its operating requirements. The Organization prepares budget and cash forecasts to ensure it has enough funds to fulfill its obligations. The risk from amounts due from participant organizations is limited as, if these matching participant organization contributions are not received by the Organization before the expected start-date of any internship, the approved associated internship will be cancelled and the related awards payable will not be paid.

(c) Interest rate risk:

The organization is exposed to fair value rate risk on its fixed-rate financial instruments, which consist solely on term deposits. Fixed-rate instruments subject the Organization to a risk of changes in fair value. The Organization's interest rate risk is minimal as these investments are in highly liquid securities with short-term maturities.

12. Subsequent event:

Subsequent to March 31, 2021, the Board of Directors approved a transfer of $11,500,000 from unrestricted to internally restricted net assets allocated as $1,000,000 for cut-back costs, $4,500,000 for future capital projects, $1,000,000 for market initiatives projects, $4,000,000 for technology operations, and $1,000,000 for strategic projects.