



2015 / 2016
ANNUAL REPORT

TABLE OF CONTENTS

About CMC Research Institutes.....	1
Interview with Richard Adamson.....	2
Containment & Monitoring Institute.....	4
Carbon Capture & Conversion Institute.....	6
Thought Leadership	8
Low Carbon Pathways Group.....	10
Board of Directors.....	11
CMC Research Institutes, Inc. Audited Financial Statements.....	13
Carbon Management Canada Inc. Audited Financial Statements.....	23

CMC RESEARCH INSTITUTES
 DESIGN, CREATE AND OPERATE
CLUSTERS WHICH
CATALYZE
 AND DELIVER MULTI-SECTOR
INNOVATION
 TO ELIMINATE INDUSTRIAL
 GREENHOUSE GAS EMISSIONS.

ABOUT CMC RESEARCH INSTITUTES

We are one of a kind.

At CMC Research Institutes we have one key mission – the elimination of industrial greenhouse gas emissions – and we undertake this mission like no other company.

Our unique approach encompasses the development of clusters where experts collaborate on new technologies for industrial emissions as well as the policy and economic landscapes that will allow for the scale-up of solutions. We aim to streamline and simplify the path from the bench to commercialization so that researchers and technology developers have greater success bringing their products and services to market.

More specifically, our work falls into four strategic areas:

- Finding ways to more efficiently capture carbon from industrial processes.
- Converting carbon to value-added products.

- Developing technologies to better store and monitor CO₂ in underground reservoirs, and detect, characterize and mitigate methane emissions.
- Providing evidence-based research to support the development of low carbon policy and regulatory frameworks.

CMC is organized into three institutes and also offers a comprehensive range of programs and services to help de-risk investment decisions and accelerate technology development. The three institutes are:

- Containment & Monitoring Institute (CaMI)
- Carbon Capture & Conversion Institute (CCCI)
- Low Carbon Pathways Group (LCPG)

Through these institutes we are pursuing new pathways to reduce industrial greenhouse gas emissions to combat climate change and help Canada develop important ways to transition to a low carbon future.

A YEAR OF GROWTH FOR CMC'S INSTITUTES

INTERVIEW WITH RICHARD ADAMSON



Richard Adamson, President

Q: The political landscape in Canada shifted dramatically in 2015 with new climate change policies announced in Alberta in November and the election of a federal government in October that was emphasizing its commitment to climate change. How did those changes impact operations at CMC Research Institutes?

RA: At CMC last year, we were concerned it was going to take a significant period of time for those high level government policy declarations to make it into funding programs to support real activity. We looked at our remaining budget and our burn rates at the time and estimated it would be Christmas 2016 before there were substantial amounts of funding flowing associated with those programs.

So we downsized in December 2015 in order to cut our burn rate. It was painful, it was really painful for everybody, but we are now seeing significant funding calls coming out from the federal government and we are responding to those calls with proposals and we are going to be in good shape on some of those project proposals to generate revenue from major projects.

Q: What kind of progress has been made at CMC's two institutes – the Containment and Monitoring Institute and the Carbon Capture and Conversion Institute?

RA: The Containment and Monitoring Institute (CaMI) folks have been working diligently to get us into projects with the U.S. Department of Energy and with some international calls with Norway's CLIMIT program and others. Some of those have been won, some are still in the selection process but we are moving in the direction of generating revenue that will make CaMI self-sustaining. They have been actively pursuing a number of other innovation projects with industry and the federal government.

And in an exciting new development, the University of Calgary and the University of Alberta have each received \$75M from the Canada First Research Excellence Fund which focuses on clean tech in energy and has a very high commitment to collaboration. We foresee great synergies with them and that will also help CaMI become a much more self-sustaining program, both on the technology side and relating to training programs.

Q: It sounds like the future is looking positive for CaMI. Are you seeing the same kind of progress at the Carbon Capture and Conversion Institute?

RA: The CCCI is in an earlier stage. In July, Goran Vlainic, a technology development expert who was working with Devon Energy, came on board as Executive Director of the Institute. We also have the relationship with BC Research Inc. that was formalized this year. We are also in the process of formalizing a relationship with UBC's Clean Energy Research Centre, and with the Government of British Columbia. We anticipate some very exciting announcements to come out of that work.

In the mean time, the Technology Commercialization and Innovation Centre is under construction now and will be ready for operation come January. And at the same time we are in the process of developing specific projects that can enter the cue there.

Q: What about the broader picture? What does the next year look like for CMC?

RA: I think we are in a good position. We don't have guaranteed funding in place right now, but I expect that the Containment and Monitoring Institute will have solid baseline funding and/or project flow sufficient to make it sustainable. The Capture and Conversion Institute within the next year will be in a similar situation.

At the same time we are working with the federal government and other provinces to examine what the next institutes ought to be to have high impact in a Canadian context. One that I'm thinking about is carbon storage in the built environment. It would be a program under the Carbon Capture and Conversion Institute.

Urbanization is a huge global trend - building infrastructure, roads, all of that development that

makes up the built environment. What we need to do is figure out how we can embed as much carbon as possible into the materials that go into the built environment, whether it's carbonate in aggregate for road beds, or mixed into cement, whether it's in the concrete itself, whether it's in plastics or carbon fiber tension members. We need to look at all the materials that go into this built environment.

Q: What needs to happen to push CMC into a whole other level of operation?

RA: Here's the issue - CMC is itself an innovation. In Canada, the innovation system has consisted of three major groups: academia, government and industry. CMC is an experiment as none of the above: an independent, not-for-profit network of research institutes focused on a mission but not under any one of the other umbrellas.

The biggest challenge that we've faced is that whenever government sits down to write policy they figure out the role for academia, they figure out the role for government, they figure out the role for industry and they've got the job done. And the policies may not fit for CMC even though there is significant value to be added.

In order for us to be really effective we need to become part of the design of the innovation ecosystem. We have to penetrate the awareness of government, industry and academia as an effective active partner. That is starting to happen, but it's taking longer than had originally been thought. We are having impact and expect to play a much larger role in the coming years.



CaMI Mobile Geochemistry Laboratory

CONTAINMENT & MONITORING INSTITUTE

SHARING BEST PRACTICES TO ACCELERATE TECHNOLOGY DEVELOPMENT FOR CARBON STORAGE & METHANE DETECTION

The past year saw rapid growth within the Containment and Monitoring Institute – resulting in an expanding cluster of global expertise in carbon storage and methane management.

CaMI's Field Research Station (FRS) attracted researchers, and government and industry stakeholders from across Canada, the U.K., Germany and the U.S., all intent on accelerating technology development and creating integrated protocols to ensure CO₂ can be safely stored and monitored. The FRS is unlike other testing sites where clients engage in their own work and leave with their results. Instead, clients agree to share their results to ensure best practices for measurement and monitoring protocols can be established.

The affiliation between CaMI and the University of Calgary continues to be very strong with Dr. Lawton being awarded two years of funding for an 'Eyes High' Postdoctoral Fellow to undertake geophysical research at the Field Research Station. Dr. Marie Macquet, from Grenoble France, joined the project in the spring of 2016.

The year's flurry of activity began with the June 2015 announcement of a collaborative research initiative funded by the UK Carbon Capture and Storage Research Centre. The initiative provided travel funds for researchers from four U.K.

institutions: the University of Bristol, the University of Edinburgh, the British Geological Survey and Imperial College London.

The first of these projects got underway in July 2015 when Drs. Anna Stork, Michael Kendall and Anna Horleston, University of Bristol, installed broadband seismometers around the site's two injection wells with the aim of collecting data before and after the injection of CO₂. Researchers from other funded projects visited the site over the course of the year.

Also last year, Lawrence Berkeley National Laboratory announced a US\$350,000 project at the field research station to be funded by the U.S. Department of Energy's Carbon Storage project. Funding allowed for the installation of multiple technologies at the site including fiber-optic sensors of seismic and thermal monitoring, electromagnetic imaging tools and downhole geochemical samplers.

The field research station also drew researchers from NRCan's CANMET Energy, the University of Calgary, the Institut National de la Recherche Scientifique, Guelph University's G360 - the Centre for Applied Groundwater Research program, the GFZ Helmholtz Centre in Germany, Technische Universität Freiberg, also in Germany, and the Electric Power Research Institute in the U.S. A number of these groups are conducting baseline



Testing electromagnetic tomography cable at the FRS.

studies in preparation for CO₂ injection which should take place in the fall of 2017.

Industry Collaboration

CaMI was also excited to announce that two industry sponsors signed on to the FRS research program: environmental and engineering consulting group Klohn Crippen Berger and Shell Global Solutions. As sponsors, both companies have the opportunity to prioritize research opportunities, bring forward new research directions, and provide guidance on the overall research program. Industry involvement at the site is key to helping researchers understand and work to solve real-world challenges.

Mobile Geochemistry Laboratory

This last year saw the federal and the Alberta provincial governments both commit to reducing methane emissions from the oil and gas sector. In March, a joint Canada-U.S. statement set a target of bringing methane emissions to 45 percent below 2012 levels by 2025. In Alberta, the provincial government also said it will reduce methane emissions from oil and gas operations 45 per cent by 2025.

Against this backdrop CaMI announced it had outfitted the Mobile Geochemistry Laboratory which can be used for the detection of methane and other gases. The Laboratory, which is housed



CaMI's Kirk Osadetz, left, with Sam Krevor, Imperial College London.

in a 27-foot trailer equipped with state-of-the art equipment, will detect and analyze atmospheric, casing and soil gases including CH₄, CO₂, H₂S, N₂ and O₂. Other capabilities include groundwater, surface water and produced fluid sampling and analysis, as well as isotope fingerprinting.

A unique aspect of the unit is a drive-around gas detection and characterization system located in the truck. As the vehicle moves, air is continuously sampled for the chemical and isotopic composition of gases including CO₂, CH₄ and H₂S. Data analysis is quick with reports sent to an in-cab laptop equipped with software to process information. The system is ideal for background surveys, identification of fugitive emissions, detecting natural seeps and distinguishing biological gases from petroleum system sources.

The Mobile Geochemistry Laboratory is currently being operated in affiliation with the University of Calgary, with Dr. Bernhard Mayer's geochemistry research group in the Department of Geoscience. In June 2016, staff from the research group displayed the laboratory and truck at the 2016 Global Petroleum Show in Calgary.

A key benefit of both systems – the lab in the trailer and the truck-based detection system – is that analysis and results can be given to clients in hours and days instead of weeks.

CARBON CAPTURE & CONVERSION INSTITUTE

A GLOBAL NETWORK OF EXPERTS COLLABORATING TO SOLVE CRITICAL CHALLENGES

The mission of the Carbon Capture and Conversion Institute (CCCI) is to bring together national and international groups of multidisciplinary experts to accelerate the development and commercialization of capture and conversion technologies. The last year saw the institute move ahead with this mission and gain growing recognition as a source of expertise.

In late 2015, construction began on the Technology Commercialization and Innovation Centre (TCIC) in Richmond B.C. When complete in early 2017, a portion of this 40,000 sq. ft. facility will headquarter pilot plant, laboratory and office space for the CCCI. The centre will accommodate a comprehensive range of technologies from solvent systems, membranes, and sorbents on the capture side, to chemical, electrochemical and even biological systems in the conversion stream.

But more than just providing physical space for pilot plants, the CCCI is a unique collaborative initiative where stakeholders from all parts of the technology development spectrum meet to brainstorm and problem solve. Researchers from UBC, engineers with scale up and piloting experience from BC Research, and subject matter experts from CMC's international network will work together to scale up research and accelerate innovative solutions.

New Executive Director

In July, we hired Goran Vlainic to serve as Executive Director of the CCCI. Goran, who is based in Vancouver, has years of experience accelerating the development of capture technologies, from identifying industry needs, to developing collaborative partnerships, to securing funds. He brings with him an engineering background specializing in catalysis and electro-chemistry and, in his previous role at Devon Energy, worked to scale up and demonstrate several carbon capture technologies based on solid sorbents and a molten carbonate fuel cell.

Goran was also Senior Research Engineer at the Saskatchewan Research Council where he focused on technology development for the conversion of biomass to liquids, chemicals, and combined heat and power generation. At Ballard Power Systems, where he was Principal Scientist and Team Leader, his work included the development and commercialization of proton exchange membrane fuel cells in general and design and manufacturing of electrocatalyst layer and catalyst coated membrane (CCM) in particular.

Expertise Recognized

Our expertise in the capture and conversion arenas is being recognized and we are increasingly being asked to sit on panels as expert commentators. In January, Richard Adamson and CCCI Senior Research Director Naoko Ellis spoke at CarbonTalks, a Simon Fraser University initiative to stimulate public conversation around the transition to a low carbon economy. In March, CMC organized a panel on industrial capture and conversion for the Vancouver Economic Forum. In August, we were excited and proud when we were asked if the TCIC facility could be used by B.C. Premier Christy Clark to announce her Climate Leadership Plan (see photos on page 7). Close to 100 people attended the August 19 announcement and had the opportunity to meet with Lower Mainland technology developers and UBC researchers invited by the CCCI to the event.

B.C. CLIMATE LEADERSHIP PLAN

In the coming year, we expect small and medium-sized enterprises and other partners to test new capture and conversion processes in the Technology Commercialization and Innovation Centre as we work with a global network of experts to push technologies to their next stage of development on the path to commercialization.



B.C. Premier Christy Clark chats with researchers at the TCIC.



B.C.'s Climate Leadership Plan is announced



Artists rendering of the Technology Commercialization and Innovation Centre

THOUGHT LEADERSHIP

CMC EXPERTS CONTRIBUTE TO CLIMATE DIALOGUE

It has been a pivotal year in climate change politics in Canada and around the world. The fall of 2015 saw Alberta undertaking an extensive public engagement on climate change policies, with the process culminating in a November announcement of a Climate Leadership Plan. On the global stage, COP21 in December marked the first time 195 countries set a goal of keeping temperature increases below 2°C. Advances continued in 2016 with Canada's First Minister's signing the Vancouver Declaration in March. This was followed by the Liberal government's first federal budget which contained a focus on ways to stimulate a "clean growth economy."

Here at CMC Research Institutes, we have been a valued contributor to the conversation around ways to reduce industrial GHG emissions. Through invited presentations to public talks, to hosting forums, to communicating with key government stakeholders, CMC has been raising awareness about the important need to stimulate and accelerate innovation in the clean tech sector as a way to reduce industrial emissions.

FOLLOWING ARE A FEW HIGHLIGHTS FROM THE LAST YEAR.

SEPTEMBER CMC released Phase 2 of the Deep Decarbonization Pathways Project in advance of the December United Nations' 21st Conference of the Parties (COP21) in Paris. The report provided techno-economic modeling and analysis of global trends in decarbonization and what their impacts could be on Canada.

Also in September, Richard Adamson spoke to delegates attending the 2015 Alberta Power Symposium about the 2015 DDPP report and how various scenarios outlined in the report related to Alberta's power market.

OCTOBER Richard Adamson appeared before Alberta's Climate Change Advisory Panel where he spoke about opportunities to reduce industrial greenhouse gas emissions through innovation and technology. The panel engaged technical stakeholders, Aboriginal People and other Albertans on key issues relating to climate change.

DECEMBER Naoko Ellis, Senior Research Director of the Carbon Capture and Conversion Institute, was in Texas to present about capture and conversion activities in B.C. at a North American Energy Ministers meeting titled Climate Change and Energy Collaboration: Advancing the Deployment of CCUS in Texas.

JANUARY Naoko Ellis and Richard Adamson spoke about CMC's Carbon Capture and Conversion Institute at CarbonTalks – a public dialogue initiative operated out of Simon Fraser University. To view the talk click [here](#).

FEBRUARY Don Lawton, Director of the Containment and Monitoring Institute, was an invited speaker at the CCS International Academic Summit in Edinburgh, Scotland. Lawton told the international crowd about the interdisciplinary research work that is taking place at the Field Research Station.

MARCH As a side event to the GLOBE sustainability and innovation conference in Vancouver, CMC worked with the Vancouver Enterprise Forum (VEF) to host a panel of energy experts from across Canada to talk about reducing industrial carbon emissions. The talk, moderated by Richard Adamson, focused on ways to accelerate the development of novel capture and conversion technologies. The event was part of the VEF's series of ongoing talks aimed at bringing technology entrepreneurs together to stimulate collaboration and growth. To view [click here](#).

Don Lawton gave an update on progress at the Field Research Station to an audience attending the British Geological Survey's CO₂ Storage Workshop 'Pathways from Pilot to Demonstration' in Nottingham, U.K.

APRIL Richard Adamson and Naoko Ellis presented to participants attending the North American Energy Ministers Trilateral Meeting on CCUS in Mexico City. Richard provided attendees with an introduction to CMC and an overview of operations and developments within CaMI and the CCCI.

JUNE Standing-room-only crowds gathered for the first Low Carbon Innovation Forum presented by CMC as part of the 2016 Global Petroleum Show in Calgary, Alberta. The forum featured four panels with experts from the technology development community, the fossil energy industry, funding organizations, and NGOs. Speakers examined a range of topics – all focused on technologies and pathways to reduce carbon emissions in large-scale industries. Also at the Global Petroleum Show, CMC's Mobile Geochemistry Laboratory was displayed in the Clean Technology Forum.

JULY Don Lawton gave a talk about the Field Research Station and its shallow monitoring program at the IEAGHG Modeling and Monitoring Research Workshop in Edinburgh, Scotland.

AUGUST CMC was honored to host B.C. Premier Christy Clark as she announced B.C.'s Climate Leadership Plan at the new Technology Commercialization and Innovation Centre, currently under construction in Richmond. About 100 stakeholders from government, industry, the SME community, and ENGOs along with media listened to Premier Clark as she unveiled details of the plan. The Premier also spent time speaking with university researchers and technology developers that CMC and partner BC Research had invited.

LOW CARBON PATHWAYS GROUP

PURSuing TECHNO-ECONOMIC PATHWAYS TO A LOW CARBON CANADA

To achieve a low carbon economy, federal and provincial governments need to provide certainty in policy, market-based mechanisms and regulation to support consistent, long-term industrial research and development. Clearer long-term frameworks and cooperative approaches will allow stakeholders to invest in the kind of incremental and breakthrough technology and applied research to deliver specific and tangible emissions reductions in the short, medium and long-term.

The Low Carbon Pathways group (LCPG) was created to provide techno-economic modeling and scenarios development, identification of sectoral and regional opportunities associated with transition to a low carbon economy, evaluation of policy and regulatory options, and hosting and supporting model-based tools and training programs associated with industrial greenhouse gas emissions reductions.

Although ongoing financial support to the LCPG was terminated in December to reduce operating costs, the organization was making valuable contributions to national and international conversations about carbon mitigation

Through its involvement in the Deep Decarbonization Pathways Project (DDPP), an international collaboration of 16 countries represented by energy research teams, the LCPG charted practical pathways Canada could follow to deeply reduce GHG emissions.

In 2015, LCPG contributed in two significant ways to the international DDPP project:

- In September 2015, the LCPG supported the production of [Pathways to Deep Decarbonization in Canada](#), which examines six decarbonization pathways in the Canadian context.

- The LCGP also contributed to the international DDPP Phase 2 Synthesis Report titled [Pathways to Deep Decarbonization](#) issued by the 16 members of the DDPP prior to COP21 in Paris in December.

The Canadian analysis identified six critical pathways to a low carbon economy:

1. Decarbonize electricity production.
2. Improve energy efficiency in all sectors.
3. Reduce, cap and/or utilize non-energy GHGs.
4. Structural economic change.
5. Develop zero emission transportation options.
6. Decarbonize industrial processes.

The members of the LCPG continue to build on this work to contribute to the Canadian decarbonization discussion. In the last year, Dave Sawyer published [Still Minding the Gap](#), a brief comparing Canada's GHG aspirations versus emission trajectories while Chris Bataille was the guest editor of a June 2016 [Climate Policy](#) supplement on the DDPP.

CMC is pursuing ongoing support for LCPG activities.



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INDEPENDENT AUDITORS' REPORT

To the Members of CMC Research Institutes, Inc.

We have audited the accompanying financial statements of CMC Research Institutes, Inc., which comprise the statement of financial position as at March 31, 2016, and the statements of operations and changes in net assets and cash flows for the year then ended, 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.

Auditors' 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 auditors' 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 financial statements present fairly, in all material respects, the financial position of CMC Research Institutes, Inc. as at March 31, 2016, 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.

Collins Barrow Calgary LLP

Chartered Professional Accountants

Calgary, Canada
 June 22, 2016

CMC Research Institutes, Inc. (incorporated under the laws of Canada)

STATEMENT OF FINANCIAL POSITION

March 31, 2016	2016	2015
Assets		
Current assets		
Cash	\$ 2,705,642	\$ 4,329,630
Accounts receivable (notes 3 and 4)	1,964,363	2,858,558
Prepaid expenses	27,679	138,987
	4,697,684	7,327,175
Long Term Assets		
Alberta Energy Regulator deposit	42,134	42,134
Property, plant & equipment (note 5)	5,420,265	3,082,052
Total Assets	\$ 10,160,083	\$ 10,451,361
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 279,225	\$ 599,161
Deferred revenue (note 6)	3,812,123	5,866,282
	4,091,348	6,465,443
Long-term liabilities		
Deferred contributions related to property, plant and equipment (note 7)	4,610,279	2,728,625
Decommissioning provision (note 8)	137,082	80,331
	8,838,709	9,274,399
Net Assets	1,321,374	1,176,962
	\$ 10,160,083	\$ 10,451,361

Commitments and contingencies (note 10)

See accompanying notes

CMC Research Institutes, Inc. (incorporated under the laws of Canada)

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

For the Year Ended March 31, 2016	2016	2015
Revenue		
Provincial grants	\$ 2,093,431	\$ 2,039,086
Industry grants	92,886	8,100
Contract consulting revenue	75,710	-
Amortization of deferred capital contributions related to property, plant and equipment	331,686	-
Interest income	37,868	57,733
Other income	10,266	101,275
Contribution from Carbon Management Canada Inc. (note 4)	33,310	1,158,862
	2,675,157	3,365,056
Expenses		
Salaries and benefits	1,523,184	1,413,400
General and administrative	467,698	560,634
Consultants	62,861	147,847
Professional fees	69,606	64,902
Accretion	1,068	-
Amortization	406,328	11,311
	2,530,745	2,198,094
Excess of revenue over expenditures	144,412	1,166,962
Net assets, beginning of year	1,176,962	10,000
Net assets, end of year	\$ 1,321,374	\$ 1,176,962

See accompanying notes

CMC Research Institutes, Inc. (incorporated under the laws of Canada)

STATEMENT OF CASH FLOWS

For the Year Ended March 31, 2016

2016

2015

Cash Provided by (used in):

Operating activities

Excess of revenue over expenditures	\$ 144,412	\$ 1,166,962
Adjustment		
Amortization of deferred capital contributions related to property, plant and equipment	(331,686)	-
Accretion	1,068	-
Amortization	406,328	11,311
Payment of Alberta Energy Regulator deposit	-	(42,134)
	220,122	1,136,139

Changes in non-cash working capital

Accounts receivable	894,195	(2,853,097)
Prepaid expenses	111,308	(104,039)
Due from Carbon Management Canada Inc. (note 4)	-	253,437
Accounts payable and accrued liabilities	(319,936)	275,980
Deferred revenue	(2,054,159)	5,866,282
	(1,368,592)	3,438,563
	(1,148,470)	4,574,702

Investing activities

Property, plant and equipment purchases	(2,688,858)	(3,013,032)
Contributions related to property, plant and equipment	2,213,340	2,728,625
	(475,518)	(284,407)

Cash inflow (outflow)	(1,623,988)	4,290,295
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Cash, beginning of year	4,329,630	39,335
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Cash, end of year	\$ 2,705,642	\$ 4,329,630
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See accompanying notes

CMC Research Institutes, Inc. (incorporated under the laws of Canada)

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

1. Nature of operations

CMC Research Institutes, Inc. (the "Organization") focuses on the development of the technologies, insights, and processes to reduce fossil fuel carbon emissions in Canada while at the same time maintaining Canada's global position as a competitive and reliable energy supplier.

Effective January 1, 2014 CMC Research Institutes, Inc. acquired certain assets and liabilities of Carbon Management Canada Inc. and commenced commercial operations (note 4).

The Organization was incorporated on July 5, 2013, under Part II of the *Canada Corporations Act* and is exempt from tax under the *Canada Income Tax Act*.

2. Significant accounting policies

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations and include the following significant accounting policies:

a. Revenue recognition

The Organization follows the deferral method of accounting for grant revenue. Restricted contributions are recognized in the year in which related expenses are incurred. Restricted contributions related to the purchase of property, plant and equipment are deferred and amortized into income on the same basis as the related assets. Unrestricted contributions are recognized as revenue when received or when receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Interest income is recognized on an accrual basis when it is earned.

Contract consulting revenue and other income is recognized when the service is performed and collection is reasonably assured.

b. Measurement uncertainty

The valuation of accounts receivable is based on management's best estimate of the provision for doubtful accounts.

The valuation of property, plant and equipment is based on management's best estimate of the future recoverability of these assets. The amounts recorded for amortization of property, plant and equipment is based on management's best estimates of the remaining useful lives and the period of future benefit of the related assets.

Amounts recorded for the decommissioning provision and the related accretion expense require the use of estimates relating to the amount and timing of the related expenditures and discount rates.

The valuation of accrued liabilities is based on management's best estimate of the expenses incurred during the year that will be payable in future periods.

The valuation of deferred revenue is based on management's best estimate of the revenue earned in accordance with each grant agreement.

By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

c. Financial instruments

The Organization initially measures its financial assets and liabilities at fair value, except for certain non-arm's length transactions that are measured at the exchange amount.

The Organization subsequently measures all its financial assets and financial liabilities at amortized cost.

Financial assets measured at amortized cost include cash, accounts receivable and Alberta Energy Regulator deposit.

Financial Liabilities measured at amortized cost include accounts payable and accrued liabilities.

Financial assets measured at cost or amortized cost are tested for impairment, at the end of each year, to determine whether there are indicators that the asset may be impaired. The amount of the write down, if any, is recognized in excess of revenue over expenditures. The previously recognized impairment loss may be reversed to the extent of the improvement, directly or by adjusting the allowance account. 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. The amount of the reversal is recognized in excess of revenue over expenditures.

d. Property, Plant and Equipment

Property, plant and equipment is valued at cost, being the purchase price and directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the organization.

Property, plant and equipment is subsequently measured at cost less accumulated amortization, less any accumulated impairment losses.

Amortization is recognized on a straight-line basis over the estimated useful life of assets as follows:

	Per Annum Rate
CaMI Field Research Station (FRS) Well Site	12.5%
CaMI FRS Equipment	12.5%
CaMI FRS Vehicles	30.0%
CaMI FRS Buildings	12.5%
Well retirement obligation	12.5%
Furniture & Fixtures	20.0%
Computer Hardware	55.0%
Computer Software	30.0%

Amortization is provided using the half-year rule in the year of acquisition.

Property, plant and equipment is evaluated for impairment when events or circumstances indicate its carrying value may not be recoverable. An impairment is measured by comparing the carrying value of the assets to the fair value, based on the present value of future cash flows expected to be generated from the assets.

e. Decommissioning provision

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of petroleum and natural gas properties.

A decommissioning provision is recognized as a liability for obligations associated with the abandonment of petroleum and natural gas wells, removal of equipment from leased acreage and returning such land to its original condition as set by standards of environmental regulations.

The Organization records the fair value of each decommissioning obligation in the year a well or related asset is drilled, constructed or acquired. Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are determined by discounting the expected future cash flows at a pre-tax risk-free rate. The expected future cash flows reflect current market assessments and the risks specific to the liability.

The obligation is reviewed regularly by the Organization's management based on current regulations, costs, technologies and industry standards. The discounted obligation is initially capitalized as part of the carrying amount of the related property, plant and equipment, and a corresponding liability is recognized. The increase in property, plant and equipment is amortized on the same basis as the related property, plant and equipment, while the liability is accreted to income until it is settled or sold. Subsequent to the initial measurement, the obligation is adjusted at the end of each year to reflect the passage of time, changes in the estimated future cash flows underlying the obligation and changes in the pre-tax risk-free rate. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows or changes in the risk free rate are capitalized. Actual costs incurred upon settlement of the decommissioning provisions are charged against the provision to the extent the provision was established.

3. Accounts receivable

	2016	2015
Trade receivables	\$ 97,805	\$ -
Grants receivable	1,822,652	2,773,115
GST receivable	43,906	85,443
	<u>\$ 1,964,363</u>	<u>\$ 2,858,558</u>

4. Related party transactions

During the year ended March 31, 2016, \$33,310 (2015 - \$1,158,862) of net assets was transferred to the organization from Carbon Management Canada Inc. to assist the Organization in carrying out its mission.

The University of Calgary leases office space to the Organization at no cost. The university has estimated the value of the lease at \$105,617 per annum, however no amount has been recorded in these financial statements related to the lease. The lease expires on May 31, 2017.

As at March 31, 2016, accounts receivable includes \$6,745 receivable from the University of Calgary related to expense reimbursements.

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

5. Property, Plant and Equipment

	2016 Cost	2016 Accumulated Amortization	2016 Net Value	2015
CaMI Field Research Station (FRS) Well Site	\$ 3,300,936	(206,308)	\$ 3,094,628	\$ 1,197,644
CaMI FRS Equipment	1,988,776	(124,299)	1,864,477	1,635,594
CaMI FRS Vehicles	251,149	(37,076)	214,073	101,475
CaMI FRS Buildings	69,905	(4,369)	65,536	-
Well retirement obligation	136,014	(8,501)	127,513	80,332
Furniture & Fixtures	52,812	(15,712)	37,100	47,165
Computer Hardware & Software	37,461	(20,523)	16,938	19,842
	<u>\$ 5,837,053</u>	<u>(\$416,788)</u>	<u>\$ 5,420,265</u>	<u>\$ 3,082,052</u>

During the year ended March 31, 2016 the Organization purchased capital assets for the Field Research Station in Newell County and paid project management costs to prepare the site and drill wells for the Containment and Monitoring Institute (CaMI). These CaMI assets commenced being used in the year ending March 31, 2016 and are amortized using the half-year rule for the year ended March 31, 2016.

6. Deferred revenue

Deferred revenue amounts originate from the initial 2010 Alberta Environment Grant Agreement ('Provincial grant' shown below) transferred from Carbon Management Canada Inc. and certain industry grants. The grants are recognized into revenue as the funds are spent in accordance with the terms of the agreement. Deferred revenue consists of the following:

	2016	2015
Provincial grant	\$ 3,726,548	\$ 5,819,979
Other Grant - Low Carbon Innovation Alliance	-	46,303
Industry grants	85,575	-
	<u>\$ 3,812,123</u>	<u>\$ 5,866,282</u>

7. Deferred capital contributions related to property, plant and equipment

Deferred capital contributions related to property, plant and equipment originate from the 2014 Western Economic Diversification financial contribution ('Federal grant' shown below) and certain industry grants. The grants are recognized into revenue on the same basis as amortization of the related assets. Deferred capital contributions related to property, plant and equipment consist of the following:

	2016	2015
Federal grant	\$ 4,589,721	\$ 2,728,625
Industry grants	20,558	-
	<u>\$ 4,610,279</u>	<u>\$ 2,728,625</u>

8. Decommissioning Provision

The future well decommissioning obligations were determined by management and were based on the Organization's estimated future costs to reclaim and abandon the wells, and the estimated timing of when the costs will be incurred. The Organization estimates the total undiscounted amount of cash flows required to settle its obligations to be approximately \$147,300, which is expected to be incurred over the next 8 years. The Organization has discounted the obligation using a risk-free rate of 1.00% (2015 – 1.33%) per annum and an inflation rate of 2% per annum.

The following table presents the reconciliation of the beginning and ending aggregate carrying amounts of the decommissioning provision associated with the retirement of petroleum and natural gas properties:

	2016	2015
Balance, beginning of year	\$ 80,331	\$ -
Additions	54,100	80,331
Change in estimate	1,583	-
Accretion	1,068	-
Balance, end of year	<u>\$ 137,082</u>	<u>\$ 80,331</u>

9. Financial instruments

The Organization is exposed to the following significant financial risks:

a. 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 financial instruments that potentially subject the Organization to a significant concentration of credit risk consist primarily of cash, Alberta Energy Regulator Deposit and accounts receivable. The Organization mitigates its exposure to credit loss by placing its cash and Alberta Energy Regulator Deposit with a major financial institution. Accounts receivable consists of interest receivable on the bank balances, grants receivable and goods and services tax due from the Federal Government of Canada, none of which result in significant credit risk.

b. Liquidity risk

Liquidity risk is the risk that the Organization will encounter difficulty in meeting obligations associated with financial liabilities. The Organization intends to settle their liabilities through ongoing management of its capital and cash flows from operating activities. The Organization manages its liquidity risk through cash management. The Organization does not currently have any government funding sources beyond the existing grant agreement with the Province of Alberta (note 6), and is required to spend the remaining \$3,726,548 by the end of the grant term on March 31, 2017.

10. Commitments and contingencies

The Organization receives a portion of its funding through grants that specify the term of the funding and the eligible expenditures under the grant. The Organization may be required to repay all or a portion of the grant if ineligible expenditures are incurred, or if all of the grant monies are not spent within a designated time frame. The initial 2010 Alberta Environment Grant Agreement (note 6) expires on March 31, 2017. Accordingly, the Organization will be required to spend the remaining funds of \$3,726,548 by March 31, 2017 or negotiate an extension with the funder.

11. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.



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INDEPENDENT AUDITORS' REPORT

To the Members of Carbon Management Canada Inc.

We have audited the accompanying financial statements of Carbon Management Canada Inc., which comprise the statement of financial position as at August 31, 2015, and the statements of operations and changes in net assets and cash flows for the period then ended, 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.

Auditors' 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 auditors' 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 financial statements present fairly, in all material respects, the financial position of Carbon Management Canada Inc. as at August 31, 2015, and the results of its operations and its cash flows for the period then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Emphasis of Matter

We draw attention to note 1 to the financial statements which explains that the Organization was dissolved on August 31, 2015. Our opinion is not qualified in respect of this matter.

Collins Barrow Calgary LLP Chartered Professional Accountants

Calgary, Canada, June 22, 2016

Carbon Management Canada Inc. (incorporated under the laws of Canada)

STATEMENT OF FINANCIAL POSITION

August 31, 2015	August 31, 2015	March 31, 2015
Assets		
Current assets		
Accounts receivable	\$ -	\$ 54,281
	\$ -	\$ 54,281
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	\$ -	\$ 12,000
	-	12,000
Net Assets	-	42,281
	\$ -	\$ 54,281

See accompanying notes

Carbon Management Canada Inc. (incorporated under the laws of Canada)

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

Period Ended August 31, 2015	Period Ended August 31, 2015	Year Ended March 31, 2015
Revenue		
Federal grants	\$ -	\$ 12,447
Provincial grants	-	1,010,907
Interest income	1,010	44,905
Other income	19	22,113
	1,029	1,090,372
Expenses		
Project funding	-	1,060,740
General and administrative	-	13,807
Advertising and outreach	-	5,000
Professional fees	10,000	10,825
Contributions to CMC Research Institutes, Inc. (note 3)	33,310	1,158,862
	43,310	2,249,234
Shortfall of revenue over expenditures	(42,281)	(1,158,862)
Net assets, beginning of year	42,281	1,201,143
Net assets, end of year	\$ -	\$ 42,281

See accompanying notes

Carbon Management Canada Inc. (incorporated under the laws of Canada)

STATEMENT OF CASH FLOWS

Period Ended August 31, 2015	Period Ended August 31, 2015	Year Ended March 31, 2015
Cash Provided by (used in)		
Operating activities		
Shortfall of revenue over expenditures	\$ (42,281)	\$ (1,158,862)
Changes in non-cash working capital		
Accounts receivable	54,281	11,035
Accounts payable and accrued liabilities	(12,000)	(159,000)
Due to CMC Research Institutes, Inc.	-	(253,437)
Deferred revenue	-	(8,882,605)
	42,281	(9,284,007)
Cash outflow	-	(10,442,869)
Cash, beginning of period	-	10,442,869
Cash, end of period	\$ -	\$ -

See accompanying notes

Carbon Management Canada Inc. (incorporated under the laws of Canada)

NOTES TO FINANCIAL STATEMENTS

August 31, 2015

1. Nature of operations

Carbon Management Canada Inc. (the "Organization") focused on funding the development of the technologies, insights and highly qualified personnel to reduce fossil fuel carbon emissions in Canada while at the same time maintaining Canada's global position as a competitive and reliable energy supplier.

On February 11, 2010, the Organization signed a grant agreement with the federal government for their Networks of Centres of Excellence ("NCE") Program. The purpose of the NCE Program is to promote the development of technologies and practices for reduction of carbon emissions related to fossil fuel energy production and consumption. The grant agreement was originally for a total of \$25 million, however the grant agreement was amended in November 2012 to reduce the amount of funding by approximately \$4.2 million to \$20.8 million. The NCE Program agreement with the federal government ended on June 30, 2013, however the Organization had until June 30, 2014 to expend the funds received.

On March 8, 2010, the Organization also signed a grant agreement with Alberta Environment, whereby the Alberta government matched the federal grant with an equal amount.

On January 1, 2014 CMC Research Institutes, Inc. acquired certain assets and liabilities from Carbon Management Canada Inc. (note 3).

On August 31, 2015 the Organization dissolved as it had not secured additional funding beyond the funding described above, which was required to be expended by June 30, 2014.

The financial statements have been prepared in accordance with Canadian generally accepted accounting standards for not-for-profit organizations applicable to a going concern, which assumed that the Organization would be able to meet its obligations and continue its operations until its expected wind-up date. Management has determined that the presentation of the financial statements would be no different whether presented under the going concern assumption or using liquidation values as all of its assets and liabilities have liquidation values consistent with their carrying values.

The Organization was incorporated on December 23, 2009, under Part II of the Canada Corporations Act and is exempt from tax under the Canada Income Tax Act.

2. Significant accounting policies

The financial statements were prepared in accordance with Canadian accounting standards for not-for-profit organizations and include the following significant accounting policies:

a. Revenue recognition

The Organization followed the deferral method of accounting for grant revenue. Restricted contributions were recognized in the period in which related expenses were incurred. Unrestricted contributions were recognized as revenue when received or when receivable if the amount to be received could be reasonably estimated and collection was reasonably assured.

Interest income was recognized on an accrual basis as earned.

b. Financial instruments

The Organization initially measured its financial assets and liabilities at fair value, except for certain non-arm's length transactions that were measured at the exchange amount.

The Organization subsequently measured all its financial assets and financial liabilities at amortized cost.

Financial assets measured at cost or amortized cost were tested for impairment, at the end of each period, to determine whether there were indicators that the asset may be impaired. The amount of the write down, if any, was recognized in excess (shortfall) of revenue over expenditures.

3. Related party transactions

Prior to June 30, 2013, the University of Calgary operated as Network Host under the NCE agreement (note 1) to administer the use of the grant funds in accordance with the terms and conditions of the agreement.

The Network Host leased office space to the Organization and CMC Research Institutes, Inc. (CMCRI) at no cost. No amount has been recorded in these financial statements related to the lease.

During the year ended March 31, 2014, CMCRI was incorporated to bridge the gap between use-inspired research (where the Organization has largely operated in the past) and a greater focus on innovation, technology development, commercial and industrial adoption and widespread implementation. CMCRI is related through a common management, staff and directors. During the period ended August 31, 2015, \$33,310 (March 31, 2015 - \$1,158,862) of net assets were transferred to CMCRI to accomplish its mission as the Organization completed its dissolution (note 1).

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

WITH APPRECIATION TO OUR SUPPORTERS, AFFILIATES AND FRIENDS:





To learn more about how CMC can help you manage your greenhouse gas challenges please contact our office.

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