

**Canadian Microelectronics Corporation/
Société Canadienne de Micro-électronique**

Operating as

**CMC Microsystems
Non-consolidated
Financial Statements
For the year ended March 31, 2017**

**Canadian Microelectronics Corporation/
Société Canadienne de Micro-électronique**
Non-consolidated Financial Statements
For the year ended March 31, 2017

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying non-consolidated financial statements of the Canadian Microelectronics Corporation/Société Canadienne de Micro-électronique which comprise the statements of financial position as at March 31, 2017 and March 31, 2016 and the non-consolidated statements of changes in net assets, revenue and expenditures and cash flows for the years ended March 31, 2017 and March 31, 2016 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the non-consolidated financial statements present fairly, in all material respects, the financial position of the Canadian Microelectronics Corporation/Société Canadienne de Micro-électronique as at March 31, 2017 and March 31, 2016 and its financial performance and its cash flows for the years ended March 31, 2017 and March 31, 2016 in accordance with Canadian accounting standards for not-for-profit organizations.

Collins Barrow SEO LLP

Chartered Professional Accountants
Licensed Public Accountants

Kingston, Ontario
June 12, 2017

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

March 31	2017	2016
Assets		
Current		
Cash (Note 1)	\$ 4,380,126	\$ 2,534,905
Accounts receivable (Note 2)	1,741,448	3,047,623
Prepaid expenses	227,229	244,421
	<u>6,348,803</u>	<u>5,826,949</u>
Investment in DMT Microsystems Corporation (Note 4)	240,471	154,828
Capital assets (Note 5)	286,430	343,656
	<u>\$ 6,875,704</u>	<u>\$ 6,325,433</u>
Liabilities and Net Assets		
Current		
Funds owing to Queen's University (Note 6)	\$ 724,837	\$ 943,659
Accounts payable and accrued liabilities (Note 7)	1,249,077	1,149,312
HST payable	144,008	122,181
Deferred revenue	268,345	151,518
	<u>2,386,267</u>	<u>2,366,670</u>
Net assets		
Invested in capital assets	286,430	343,656
Restricted net assets	1,463	1,463
Unrestricted net assets	4,201,544	3,613,644
	<u>4,489,437</u>	<u>3,958,763</u>
	<u>\$ 6,875,704</u>	<u>\$ 6,325,433</u>

On behalf of the Board:

_____ Director

_____ Director

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

For the year ended March 31				2017			2016
	NSERC Funded Portion of the National Design Network	Other	RSF	Total			Total
Net assets, beginning of year	\$ 317,131	\$ 3,640,169	\$ 1,463	\$ 3,958,763			\$ 4,194,892
Excess of revenue over expenditures (expenditures over revenue) for the year	(105,616)	636,290	-	530,674			(236,129)
Net assets, end of year	\$ 211,515	\$ 4,276,459	\$ 1,463	\$ 4,489,437			\$ 3,958,763
Represented by:							
Invested in capital assets	\$ 211,515	\$ 74,915	\$ -	\$ 286,430			\$ 343,656
Restricted net assets, end of year	-	-	1,463	1,463			1,463
Unrestricted net assets, end of year	-	4,201,544	-	4,201,544			3,613,644
	\$ 211,515	\$ 4,276,459	\$ 1,463	\$ 4,489,437			\$ 3,958,763

**Canadian Microelectronics Corporation/
Soci t  Canadienne de Micro- lectronique**
Non-consolidated Statement of Revenue and Expenditures

For the year ended March 31 2017 2016

	NSERC Funded Portion of the National Design Network	Other	RSF	Total	Total
Revenue					
Grant from NSERC/RSF	\$ 6,677,115	\$ -	\$ 1,322,885	\$ 8,000,000	\$ 8,000,000
Contract management	-	1,142,793	-	1,142,793	1,301,513
Other - cost sharing	-	894,200	-	894,200	927,274
Cost sharing for fabrication	-	589,487	-	589,487	535,147
Donations for courses and annual symposium	-	50,375	-	50,375	77,575
Engineering development	-	85,643	-	85,643	70,450
Interest	-	26,134	-	26,134	30,189
	6,677,115	2,788,632	1,322,885	10,788,632	10,942,148
Expenditures					
Salaries and benefits	3,763,865	1,218,503	704,558	5,686,926	5,974,890
Equipment purchases and development contracts	2,440,648	459,214	-	2,899,862	3,377,292
Travel	262,022	13,783	85,668	361,473	459,962
Office and miscellaneous	116,451	40,348	9,803	166,602	178,915
Depreciation	101,995	5,305	-	107,300	128,030
Telephone	34,716	9,580	6,126	50,422	52,730
Professional fees	29,766	66,092	155,031	250,889	333,521
Training	22,135	3,877	2,490	28,502	23,877
Printing	8,004	2,209	1,412	11,625	14,988
Small equipment, supplies and equipment maintenance	5,590	22,311	7,196	35,097	46,943
Rent overhead	-	74,994	319,710	394,704	397,015
Contract services	-	61,842	3,970	65,812	148,616
Insurance	-	5,297	22,584	27,881	27,426
Repairs and alterations to premises	-	987	4,206	5,193	1,790
Employee search and outplacement costs	-	-	131	131	-
Contribution to ADEPT project	-	168,000	-	168,000	-
Foreign exchange loss	(2,461)	-	-	(2,461)	12,282
	6,782,731	2,152,342	1,322,885	10,257,958	11,178,277
Excess of revenue over expenditures (expenditures over revenue) for the year	\$ (105,616)	\$ 636,290	\$ -	\$ 530,674	\$ (236,129)

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

For the year ended March 31	2017	2016
Cash provided by (used in):		
Operations		
Cash received from NSERC/RSF	\$ 8,000,000	\$ 8,000,000
Cash received from other sources	4,121,686	3,098,527
Interest received	26,134	30,189
Cash paid to suppliers and employees	(10,033,703)	(11,462,423)
	<u>2,114,117</u>	<u>(333,707)</u>
Investments		
Purchase of capital assets	(50,074)	(74,588)
	<u>(50,074)</u>	<u>(74,588)</u>
Increase (decrease) in cash and cash equivalents during the year	2,064,043	(408,295)
Cash and cash equivalents, beginning of year	1,591,246	1,999,541
Cash and cash equivalents, end of year	\$ 3,655,289	\$ 1,591,246
Represented by:		
Cash	\$ 4,380,126	\$ 2,534,905
Funds owing to Queen's University	(724,837)	(943,659)
	<u>\$ 3,655,289</u>	<u>\$ 1,591,246</u>

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

March 31, 2017

Nature of Business	<p>Canadian Microelectronics Corporation/Societe Canadienne de Micor-electronique (the "organization") is incorporated without share capital under the Canada Corporations Act as a not-for-profit organization. The organization is exempt from income tax under section 149(1)(j) of the Income Tax Act.</p> <p>The organization's principal objective is to enable and accelerate Canadian competitiveness through microsystems.</p>								
Basis of Accounting	<p>These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.</p>								
Accrual Basis of Accounting	<p>Revenue and expenditures are recorded on the accrual basis, whereby they are reflected in the accounts in the period in which they have been earned and incurred respectively, whether or not such transactions have been finally settled by the receipt or payment of money.</p>								
Fund Accounting	<p>The <i>Natural Sciences and Engineering Research Council of Canada (NSERC) Funded Portion of the National Design Network Fund</i> reports only NSERC granted resources that are to be used in support of the National Design Network.</p> <p>The <i>Other Fund</i> accounts for the organization's non-NSERC supported activities.</p> <p>The <i>RSF (Research Support Fund)</i> accounts for some indirect expenditures incurred for the National Design Network.</p>								
Investment in DMT Microsystems Corporation	<p>Investment in DMT Microsystems Corporation, a wholly owned subsidiary, is accounted for using the equity method.</p>								
Capital Assets	<p>Capital assets are stated at cost less accumulated amortization. Amortization based on the estimated useful life of the asset is calculated as follows:</p> <table><tr><td>Equipment</td><td>- 30 % diminishing balance basis</td></tr><tr><td>Furniture and fixtures</td><td>- 20 % diminishing balance basis</td></tr><tr><td>Computer software</td><td>- 50 % diminishing balance basis</td></tr><tr><td>Leasehold improvements</td><td>- 10 years straight-line basis</td></tr></table> <p>Amortization of capital assets acquired during the year is calculated at one-half rates.</p>	Equipment	- 30 % diminishing balance basis	Furniture and fixtures	- 20 % diminishing balance basis	Computer software	- 50 % diminishing balance basis	Leasehold improvements	- 10 years straight-line basis
Equipment	- 30 % diminishing balance basis								
Furniture and fixtures	- 20 % diminishing balance basis								
Computer software	- 50 % diminishing balance basis								
Leasehold improvements	- 10 years straight-line basis								

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

March 31, 2017

Computer Equipment Located at Universities	The cost of acquiring computer equipment provided on long-term loan to universities is expensed when incurred.
Revenue Recognition	<p>The organization follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred.</p> <p>NSERC funding and unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.</p> <p>Revenues earned from transactions with DMT Microsystems Corporation are not recognized until the final sale with an arm's length entity.</p>
Contributions-In-Kind	No value is ascribed in the statement of operations to donated material and services which are received under the matching provisions of the agreement with NSERC.
Use of Estimates	<p>The preparation of financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from management's best estimates, as additional information becomes available in the future.</p> <p>Estimates have been made by management within these financial statements primarily in relation to accounts receivable, capital assets and accounts payable and accrued liabilities.</p> <p>These estimates and assumptions are reviewed periodically and as adjustments become necessary they are reported in the periods in which they become known.</p>

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

March 31, 2017

Foreign Currency Transactions Foreign currency accounts are translated into Canadian dollars as follows:

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

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

Pension Plans

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

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

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

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

Cash and Cash Equivalents

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

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

March 31, 2017

1. Cash

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

Bank balances include \$62,350 denominated in U.S. dollars.

2. Accounts Receivable

	2017	2016
Fabrication cost sharing	\$ 215,733	\$ 302,792
Other	59,121	498
emSYSCAN project management	1,447,606	2,712,909
Due from DMT Microsystems Corporation	18,988	31,424
	\$ 1,741,448	\$ 3,047,623

3. Related Party Transactions

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

	2017	2016
Sales to DMT Microsystems Corporation	\$ 416,824	\$ 508,844

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

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

March 31, 2017

4. Investment in DMT Microsystems Corporation

	<u>2017</u>	<u>2016</u>
Investment	\$ 10	\$ 10
Retained earnings	215,461	129,818
Advance	<u>25,000</u>	<u>25,000</u>
Investment in DMT Microsystems Corporation	<u>\$ 240,471</u>	<u>\$ 154,828</u>

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

	<u>2017</u>	<u>2016</u>
Total assets, liabilities and shareholder's equity	<u>\$ 745,957</u>	<u>\$ 543,471</u>
Excess revenue over expenditures	<u>\$ 95,619</u>	<u>\$ 70,450</u>
Cash flows from operating activities	<u>\$ 72,507</u>	<u>\$ (12,450)</u>

The organization has agreed to lend DMT Microsystems Corporation up to \$100,000, interest-free. As at March 31, 2017, \$25,000 (2016 - \$25,000) has been advanced.

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

March 31, 2017

5. Capital Assets

	2017		2016	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Equipment	\$ 2,816,490	\$ 2,606,554	\$ 2,766,416	\$ 2,527,312
Other furniture and fixtures	144,599	123,379	144,599	118,074
NSERC furniture and fixtures	208,976	190,939	208,976	186,430
Leasehold improvements	241,121	206,002	241,121	189,877
Computer software	256,240	254,122	256,240	252,003
	\$ 3,667,426	\$ 3,380,996	\$ 3,617,352	\$ 3,273,696
Net book value		\$ 286,430		\$ 343,656

During the year, capital assets were acquired at an aggregate cost of \$50,074 (2016- \$74,588) for cash.

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

6. Funds Owing to Queen's University

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

7. Accounts Payable and Accrued Liabilities

Accounts payable include \$139,030 denominated in U.S. dollars, \$30 denominated in Euros and \$220,500 denominated in Singapore dollars.

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

March 31, 2017

8. Commitments

- (a) In March 2016, the organization renewed their infrastructure services agreement whereby \$40,000 is charged annually to cover support services provided by Queen's University. The term of this agreement is from June 1, 2007 to March 15, 2018 and since January 1, 2010, charges increased by 2.5% annually.
- (b) In December 2014, the organization renewed their operating lease with Queen's University at Kingston, covering the period of April 1, 2015 to April 1, 2020. The base rent is \$9,167 per month.
- (c) In December 2014, the organization renewed their operating lease with Queen's University at Kingston, covering the period of April 1, 2015 to April 1, 2020. The base rent is \$7,355 per month.
- (d) The organization rents facilities under an operating lease agreement with the National Research Council of Canada, covering the period of August 1, 2016 to July 31, 2017. The base rent is \$1,752 per month increasing to \$1,787 per month in April 2017.
- (e) In January 2016, the organization agreed to contribute to the operations and maintenance budget of the ADEPT project, which is a national multi-institutional project in the area of advanced design platform technology. The annual contribution is \$168,000 covering the 5 year period from April 1, 2016 to March 31, 2021.

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

2018	\$ 422,144
2019	366,261
2020	366,261
2021	168,000
	<hr/>
	\$ 1,322,666

9. Contractual Obligations

The organization has outstanding purchase orders issued at March 31, 2017 totaling \$1,137,282. Of this amount \$375,563 is denominated in US dollars, \$17,452 in Euros and \$385,625 in Singapore dollars. These amounts are not reflected in the financial statements.

Canadian Microelectronics Corporation/ Société Canadienne de Micro-électronique

Notes to Non-consolidated Financial Statements

March 31, 2017

10. Natural Sciences and Engineering Research Council of Canada

For the 2010-2017 period, NSERC has awarded the organization funding to a maximum of \$56 million. The organization is committed to obtaining at least \$54.5 million in eligible matching from private sector contributions and other revenues. Private sector contributions in-kind are documented by the organization, audited by and submitted to NSERC for review.

At March 31, 2017, the organization has \$65.1 million of in-kind contributions received from the private sector relating to the 2010-2017 funding period. A framework for valuing in-kind contributions to the National Design Network was developed by the organization and approved by NSERC. These amounts are currently unaudited.

11. Economic Dependence

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

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

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

12. Pension Plans

The combined expense for all organization pension plans for the year was \$643,420 (2016 - \$636,996); this includes \$72,525 (2016 - \$77,800) under the RRSP plan and \$570,895 (2016 - \$559,196) under the Queen's University Plan.

As at August 31, 2015, the Queen's University Plan had a solvency deficiency of \$300 million.

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

March 31, 2017

13. Financial Instruments

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

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

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

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

Currency Risk

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

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