

# **National Optics Institute**

Financial Statements

**March 31, 2010**

May 11, 2010

## **Auditors' Report**

### **To the Members of National Optics Institute**

We have audited the balance sheet of **National Optics Institute** as at March 31, 2010 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the management of National Optics Institute. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and other disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of National Optics Institute as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements of preceding year have been audited by Samson Bélair Deloitte & Touche LLP, whose expressed an unqualified opinion on these financial statement in their report dated May 1, 2009.

*PricewaterhouseCoopers LLP<sup>1</sup>*

<sup>1</sup> Chartered accountant auditor permit No. 19478

“PricewaterhouseCoopers” refers to PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate legal entity.

# National Optics Institute

## Balance Sheet

As at March 31, 2010

	2010 \$	2009 \$
<b>Asset</b>		
<b>Current assets</b>		
Cash	35,079	649,168
Accounts receivable	3,856,642	4,164,306
Financial support receivable related to Internal Research Program (note 3a)	746,470	600,002
Capital assets – current portion (note 3b) i)	9,050,985	2,124,213
Business and Regional Growth Program/Innovation (note 3c)	-	466,638
Inventories (note 4)	791,098	1,073,071
Research contracts in progress	1,390,042	1,056,049
Prepaid expenses	697,229	830,826
	<u>16,567,545</u>	<u>10,964,273</u>
<b>Security investments (note 5)</b>	7,886,411	13,113,790
<b>Investments in private companies (note 6)</b>	1,006,103	738,000
<b>Financial support receivable related to capital assets (note 3b) i)</b>	4,266,677	11,005,829
<b>Capital assets (notes 7 and 9)</b>	<u>32,890,490</u>	<u>32,595,431</u>
	<u>62,617,226</u>	<u>68,417,323</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Excess of outstanding cheques over bank balances	255,707	-
Bank loans (note 8)	1,617,813	4,095,638
Accounts payable and accrued liabilities	6,151,722	4,520,087
Deferred financial support related to the Internal Research Program – current portion (note 3a)	7,766,925	7,500,000
Deferred revenues and advances on contracts	1,120,221	465,956
Current portion of long-term debt	9,461,847	2,466,276
	<u>26,374,235</u>	<u>19,047,957</u>
<b>Long-term debt (note 9)</b>	3,136,490	10,376,084
<b>Employee future benefits (note 11)</b>	835,953	1,876,103
<b>Deferred financial support related to Internal Research Program (note 3a)</b>	-	4,988,865
Capital assets (note 3b) ii)	24,151,598	24,593,099
Business and Regional Growth Program/Innovation (note 3c)	441,501	280,766
	<u>54,939,777</u>	<u>61,162,874</u>
<b>Net assets</b>		
Unrestricted	7,554,271	7,200,549
Accumulated unrealized gains on available-for-sale investments	123,178	53,900
	<u>7,677,449</u>	<u>7,254,449</u>
	<u>62,617,226</u>	<u>68,417,323</u>
<b>Commitments (note 13)</b>		

Approved by the Board of Directors



Director



(2)

Director

# National Optics Institute

## Statement of Changes in Net Assets

For the year ended March 31, 2010

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<b>Unrestricted</b>	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>Balance – Beginning of year</b>	7,200,549	9,272,439
Excess of revenues over expenses (expenses over revenues) for the year	353,722	(2,071,890)
<b>Balance – End of year</b>	<u>7,554,271</u>	<u>7,200,549</u>

<b>Accumulated unrealized gains on available-for-sale investments</b>	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>Balance – Beginning of year</b>	53,900	-
Changes in gains on investments made during the year	69,278	53,900
<b>Balance – End of year</b>	<u>123,178</u>	<u>53,900</u>

# National Optics Institute

## Statement of Operations

For the year ended March 31, 2010

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	2010	2009
	\$	\$
<b>Revenues</b>		
Financial support related to		
Internal Research Program (note 3a)	18,000,000	14,500,000
Capital assets (note 3b) ii)	3,159,852	3,024,412
Financing costs (note 3b) iii)	509,777	417,645
Business and Regional Growth Program/Innovation (note 3c)	152,179	185,872
Sales and contracts	12,832,690	12,593,912
Royalties	303,935	516,895
Technology transfer agreements and other agreements	1,571,450	10,000
Rent and other revenues	740,462	666,900
Members' contributions	64,100	63,600
	<hr/>	<hr/>
	37,334,445	31,979,236
<b>Expenses</b>		
Salaries and fringe benefits	18,629,310	17,576,880
Purchases of goods and services pertaining to project completion	6,353,581	5,589,965
Other expenses	7,320,372	6,341,729
Loss (gain) on forward exchange contracts and security investments	(49,349)	5,345
Foreign exchange loss (gain)	65,733	(31,499)
Other than temporary decline on investments in private companies	-	371,370
Interest on long-term debt	594,554	533,500
Interest and bank charges	31,755	25,353
Depreciation of capital assets	4,034,767	3,638,483
	<hr/>	<hr/>
	36,980,723	34,051,126
<b>Excess of revenues over expenses (expenses over revenues) for the year</b>	<hr/>	<hr/>
	353,722	(2,071,890)

# National Optics Institute

## Statement of Cash Flows

For the year ended March 31, 2010

	2010 \$	2009 \$
<b>Cash flows from operating activities</b>		
Excess of revenues over expenses (expenses over revenues) for the year	353,722	(2,071,890)
Items not affecting cash		
Depreciation of capital assets	4,034,767	3,638,483
Financial support related to the Internal Research Program	(5,000,000)	-
Financial support related to capital assets (note 3b and c)	(3,207,262)	(3,031,930)
Capitalized interest on financial support repayable	31,800	29,730
Unrealized loss (gain) on foreign exchange contracts	(31,534)	788
Other than temporary decline on investments in private companies	-	361,370
Gain on disposal of capital assets	-	(73,591)
Loss on disposal of security investments	23,919	5,654
Gain on disposal of investments in private companies (note 6)	(560,280)	-
	<u>(4,354,868)</u>	<u>(1,141,386)</u>
Net change in non-cash working capital items (note 10a)	<u>1,864,968</u>	<u>1,232,482</u>
	<u>(2,489,900)</u>	<u>91,096</u>
<b>Cash flows from financing activities</b>		
Variation in bank loan	(2,477,825)	1,608,672
Financial support related to the Internal Research Program	-	12,000,000
Investment income recognized as deferred financial support, net of interest receivable	405,674	265,449
Long-term debt contracted	2,609,130	2,754,500
Repayment of long-term debt (note 10b)	(342,062)	(339,175)
	<u>194,917</u>	<u>16,289,446</u>
<b>Cash flows from investing activities</b>		
Acquisition of security investments	(7,510,236)	(31,010,492)
Disposal of security investments	12,801,291	17,936,045
Receipt (purchase) of investments in private companies (notes 6 and 10b)	(8,903)	15,110
Acquisition of capital assets (note 10b)	(4,417,245)	(3,280,346)
Proceeds on disposal of capital assets	-	305,820
Proceeds on disposal of investments in private companies (note 6)	560,280	-
	<u>1,425,187</u>	<u>(16,033,863)</u>
<b>Net change in cash</b>	(869,796)	346,679
<b>Cash – Beginning of year</b>	<u>649,168</u>	<u>302,489</u>
<b>Cash (excess of outstanding cheques over bank balances) – End of year *</b>	<u>(220,628)</u>	<u>649,168</u>
<b>Supplementary information</b> (note 10)		
* Cash (excess of outstanding cheques over bank balances) at the end of year includes the following amounts disclosed in the balance sheet:		
Cash	35,079	649,168
Excess of outstanding cheques over bank balances	(255,707)	-
	<u>(220,628)</u>	<u>649,168</u>

# National Optics Institute

Notes to Financial Statements

March 31, 2010

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## 1 Statutes and nature of activities

The National Optics Institute (INO) was incorporated on December 13, 1985 under Part II of the Canada Corporations Act. Its mandate is to provide the Canadian optics industry with research and development support and the technical assistance necessary to sustain its growth and to play a leading role in the development and application of optics in Canada.

## 2 Summary of significant accounting policies

### Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities reported in the financial statements. Those estimates and assumptions also affect the disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the year. Management deems that these estimates are adequate; however actual results could differ from those estimates.

### Inventories

Inventories are valued at the lower of cost or market value. Cost is determined using the first in, first out method for raw materials. The cost of goods in process and finished goods is determined using the absorption costing method, which includes raw materials, and a fair share of labour as well as fixed and variable general manufacturing expenses. The market value of goods in process and finished goods corresponds to the net realizable value. Net realizable value corresponds to the estimated selling price of inventories less estimated costs for completion and estimated costs required to realize the sale. Raw materials held for inventory production purposes are not depreciated below cost if the finished goods in which they will be integrated are expected to be sold at cost or beyond cost. Otherwise, market value corresponds to the replacement cost.

### Capital assets

Capital assets are recorded at cost. They are depreciated using the straight-line method at the following periods:

	<b>Periods</b>
Building	20 and 40 years
Lease improvements	5 years
Research equipment	3, 5 and 10 years
Production equipment	10 years
Office and laboratory furniture and equipment	5 and 8 years
Vehicles	5 years

# National Optics Institute

Notes to Financial Statements

March 31, 2010

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## Financial instruments – Disclosure and Presentation

INO has elected to benefit from the exemption granted by the Canadian Institute of Chartered Accountants (CICA) to non-profit organizations. It allows them not to apply CICA Handbook Section 3862, which obliges entities to disclose information related to the significance of financial instruments for the entity, their nature, the extent of their risks and the way the entity manages these risks as well as CICA Handbook Section 3863, which contains the same financial instrument disclosure requirements than those included in Section 3861 as these sections are otherwise applied to INO's financial statements. Even though INO had complied with Sections 3862 and 3863 for the year ended March 31, 2009, it continues to apply CICA Handbook Section 3861 since April 1, 2009. Thus, these standards, which specifically address disclosures and presentation, did not have any impact on INO's results and financial position for the year ended March 31, 2010.

## Financial instruments

Financial assets and liabilities are initially recorded at fair value and their subsequent measurement depends on their classification as described below. Their classification depends on the purpose of the financial instruments when they are purchased or issued, their characteristics and how INO designates them:

Cash and excess of outstanding cheques over bank balances	Held for trading
Accounts receivable and financial support receivable	Loans and receivables
Security investments	Available for sale
Investments in private companies	Available for sale
Bank loans, accounts payable and accrued liabilities and long-term debt	Other liabilities

### *Held for trading*

These financial assets are initially recorded at fair value. After, these assets continue to be recorded at fair value in the balance sheet. Variation of fair value is recognized in the statement of operations for the year.

### *Available for sale*

- Not listed on market

These financial assets, which include investments in private companies, are recorded at cost. Realized gains and losses as well as interest calculated using the effective interest rate are recognized in revenues under "Technology transfer agreements and other agreements".

# National Optics Institute

Notes to Financial Statements

March 31, 2010

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- Listed on a market

These financial assets, which include security investments, are recorded at fair value. Unrealized gains and losses are included in net assets as "Accumulated unrealized gains or losses on available-for-sale investments" until they are realized, at which time the accumulated gains or losses are transferred to "Deferred financial support related to the Internal Research Program" or recorded in the statement of operations. Interest income from term deposits is also recorded under "Deferred financial support related to the Internal Research Program".

These financial assets are subject to an impairment test, and if there is an indication of impairment and the decline is deemed other than temporary, a loss is recorded in the statement of operations for the year. Once an impairment loss is charged to operations, it cannot be reversed. When reviewing securities, INO takes into account a number of facts specific to each investment, in addition to a set of factors that could indicate an other-than-temporary decline in fair value, such as a significant or extended decline in fair value, major financial difficulties for the issuer, increasing risk of bankruptcy or restructuring by the issuer and more specifically for investments in private companies, INO also accounts for any difficulties the issuer may encounter with marketing the technologies transferred.

## *Loans and receivables*

Loans and receivables are recognized at amortized cost using the effective interest method.

## *Other liabilities*

Other liabilities are recognized at amortized cost using the effective interest method and include all financial liabilities other than derivative instruments.

## *Transaction costs*

Transaction costs related to financial assets available for sale, loans and receivables and other liabilities are capitalized to the carrying value of the asset or liability, and are then recognized over the expected life of the instrument using the effective interest method.

## **Derivative financial instruments**

Derivative financial instruments that are held for trading or speculation or that do not meet hedge accounting conditions are recorded on the balance sheet and measured at fair value. Changes in fair value are recorded in the statement of operations for the year. INO's derivative financial instruments are mainly forward exchange contracts.

# National Optics Institute

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March 31, 2010

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## Intellectual property

INO incurs costs to obtain and maintain patents for the technology it develops. Due to the uncertainty surrounding the marketing of the patented technology, these costs are expensed when incurred.

## Revenue recognition

### (a) Financial support

INO follows the deferral method of accounting for financial support related to the Internal Research Program or related to capital assets and others. Financial support related to the Internal Research Program is accounted for as "Deferred financial support" and in the statement of operations upon recognition of the expenses. Financial support related to the program to purchase research equipment is accounted for as "Deferred financial support" and is amortized and transferred to revenues on the same basis as depreciation of corresponding capital assets.

### (b) Prototype and product sales

INO recognizes prototype and product sales when persuasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable and collection is reasonably assured.

### (c) Research contracts

Research contracts revenue is recognized based on the percentage of completion method. Accordingly, revenue is recognized pro rata based on the degree of completion of the work. INO uses the efforts expended method whereby the degree of completion is calculated on the basis of costs incurred as of the balance sheet date compared with the total estimated costs. The value of work in progress is determined by taking into account the billable costs incurred and the payments received. Losses are accounted for as soon as they can be determined.

### (d) Royalties and technology transfer agreements

Agreements to grant licences to companies generally provide for the payment of royalties on future sales of products developed on the basis of licensed technologies and INO's completion of additional scientific research for some of these companies. The revenues generated are recognized in the statement of operations in the year in which they are earned.

### (e) Rental revenues

Rental revenues from leases with provisions for increases are accounted for using the straight-line method over the term of the lease. The difference between the recognized revenues and the amounts receivable under the leases is presented in balance sheet as "Rent assets or liabilities". As such, no amounts have been accounted for as at March 31, 2010 and 2009.

# National Optics Institute

Notes to Financial Statements

March 31, 2010

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## Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into Canadian dollars at the exchange rate in effect at year-end. Revenues and expenses are translated into Canadian dollars at the exchange rate in effect on the dates they occur. Translation gains or losses are charged to operations.

## Employee benefit plans

INO accounts for its obligations under employee benefit plans, net of plan assets. Consequently, INO has adopted the following policies:

- The cost of pension and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on years of service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees.
- For the purposes of calculating the expected return on plan assets, those assets are valued at fair value.
- The excess of the net actuarial gain (net actuarial loss) over 10% of the accrued benefit obligation or over 10% of the fair value of plan assets, if the latter is greater, is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the pension plan is 19 years in 2010.

## 3 Financial support

### (a) Financial support – Internal Research Program

The financial support that INO receives for the Internal Research Program is as follows:

	Total support (2006 to 2011) \$	Support balance available until 2011 \$	Revenues	
			2010 \$	2009 \$
Government of Canada				
Industry Canada	15,000,000	7,000,000	5,000,000	1,500,000
Canada Economic Development	30,000,000	6,000,000	6,000,000	6,000,000
	45,000,000	13,000,000	11,000,000	7,500,000
Government of Québec	35,000,000	7,000,000	7,000,000	7,000,000
Financial support – Internal Research Program	80,000,000	20,000,000	18,000,000	14,500,000

# National Optics Institute

## Notes to Financial Statements

March 31, 2010

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### Government of Canada

The Government of Canada, through Canada Economic Development's Regional Strategic Initiatives program, granted maximum financial support of \$18,000,000, which ended on March 31, 2009. In July 2009, a new contribution of \$12,000,000 has been granted through Canada Economic Development's Business and Regional Growth program for the two-year period ending on March 31, 2011. As at March 31, 2010, an amount of \$746,470 was still receivable on the first \$6,000,000 tranche.

In addition, a financial support agreement was entered into on February 19, 2008 with the Government of Canada (Industry Canada) that grants INO additional financial support of \$15,000,000, paid in full in April 2008. INO will commit the funds received and revenues generated by investing such funds in eligible expenses defined in the agreement by March 31, 2011 at the latest.

Deferred financial support related to the Internal Research Program:

	<b>2010</b>	<b>2009</b>
	\$	\$
Financial support received in April 2008	15,000,000	15,000,000
Revenues from investments	766,925	488,865
Amount reported during fiscal years 2008 to 2010	<u>(8,000,000)</u>	<u>(3,000,000)</u>
	7,766,925	12,488,865
Less: Current portion	<u>7,766,925</u>	<u>7,500,000</u>
	<u>-</u>	<u>4,988,865</u>

The deferred financial support related to the Internal Research Program, which totals \$7,766,925 as at March 31, 2010, is invested in securities (note 5).

### Government of Québec

The Government of Québec granted financial support of \$35,000,000 over five years, ending on March 31, 2011. The annual financial support was received in full as at March 31, 2010.

# National Optics Institute

Notes to Financial Statements

March 31, 2010

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(b) Research Equipment Purchase Program – Government of Québec

During 2006-2007, the Government of Québec granted financial support of \$12,800,000 to be allocated over five years. This financial support is granted at a rate of 90% of costs claimed in the first year and will drop by 5% per year, to reach 70% of the costs claimed in 2010-2011. The financial support granted under this program is presented as follows:

	<b>Financial support \$</b>
2006-2007	2,564,965
2007-2008	2,523,432
2008-2009	2,269,738
2009-2010	2,718,351
Financial support available until March 31, 2011	<u>2,723,514</u>
	<u>12,800,000</u>

(i) Financial support receivable related to capital assets

The financial support receivable pertains to the following items:

	<b>2010 \$</b>	<b>2009 \$</b>
Term loan of an original amount of \$8,000,000 *	6,334,025	6,645,550
Research equipment purchase program		
Term loan of an original amount of \$2,774,732 *	943,085	1,868,391
Term loan of an original amount of \$2,754,500 *	1,867,118	2,754,500
Term loan of an original amount of \$2,609,130	2,190,453	-
Purchase of research equipment to be financed **	1,976,297	1,853,104
Related temporary financing costs	6,684	8,497
	<u>13,317,662</u>	<u>13,130,042</u>
Less: Current portion	<u>9,050,985</u>	<u>2,124,213</u>
	<u>4,266,677</u>	<u>11,005,829</u>

\* These loans were contracted for capital assets and payments on these loans are made directly by the Government of Québec to the lending financial institution. As a result, financial support receivable is recorded for an amount equal to the capital of the corresponding debt.

# National Optics Institute

## Notes to Financial Statements

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\*\* As provided in the financial support agreement, research equipment purchased under this program will be financed through a long-term debt repayable in equal semi-annual instalments over a period not exceeding five years. These payments will be made directly by the Government of Québec. As at March 31, 2010, INO has an authorized term loan of a maximum amount of \$2,400,000 for the purpose of financing this equipment (note 8).

(ii) Deferred financial support related to capital assets

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Balance – Beginning of year	24,593,099	25,347,773
Financial support during the year to acquire capital assets	2,718,351	2,269,738
Transfer of revenues for the year to offset the corresponding depreciation	<u>(3,159,852)</u>	<u>(3,024,412)</u>
Balance – End of year	<u>24,151,598</u>	<u>24,593,099</u>

(iii) Support related to financing costs

INO receives financial support for the interest charges related to certain long-term debts identified in note 9. The financial support thus received amounts to \$509,777 (\$417,645 in 2009) and was included in the revenues.

(c) Business and Regional Growth/Innovation program

In 2009, INO obtained a special financial support through the Business and Regional Growth/Innovation program of Canada Economic Development for improving its ability to market the technology and technological know-how produced by its Internal Research Program.

Financial support amounting to \$779,551 has been fully received during the current year (\$466,638 were receivable as at March 31, 2009) as repayment for 50% of the costs incurred of \$625,825 in 2010 (\$933,276 in 2009), of which \$416,290 (\$576,568 in 2009) have been used to acquire capital assets.

An amount of \$152,179 (\$185,872 in 2009) has been recorded in the statement of operations for the year, of which \$47,410 (\$7,518 in 2009) is in compensation for the depreciation of corresponding capital assets.

# National Optics Institute

Notes to Financial Statements

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The deferred financial support related to capital assets is broken down as follows:

	<b>2010</b>	<b>2009</b>
	\$	\$
Balance – Beginning of year	280,766	-
Financial support for the year to acquire capital assets	208,145	288,284
Transfer of revenues for the year to offset the corresponding depreciation	(47,410)	(7,518)
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Balance – End of year	441,501	280,766
	<hr/>	<hr/>

## 4 Inventories

	<b>2010</b>	<b>2009</b>
	\$	\$
Raw materials	192,790	489,271
Work in progress	307,968	502,000
Finished goods	290,340	81,800
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	791,098	1,073,071
	<hr/>	<hr/>

## 5 Security investments

Security investments are comprised of fixed income securities that bear interest at effective annual rates and have the following maturities:

	<b>Maturity</b>	<b>Rate</b>	<b>2010</b>	<b>2009</b>
		%	\$	\$
Term deposits	2010 and 2011	0.880 to 3.92	1,631,360	7,125,000
Corporate bonds	2010 to 2016	1.295 to 5.25	6,255,051	5,988,790
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			7,886,411	13,113,790
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# National Optics Institute

Notes to Financial Statements

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Unrealized gains and losses on available-for-sale investments

				<b>2010</b>
	Amortized cost \$	Unrealized gross gains \$	Unrealized gross losses \$	Carrying value \$
Bonds	6,131,873	123,178	-	6,255,051
				<b>2009</b>
	Amortized cost \$	Unrealized gross gains \$	Unrealized gross losses \$	Carrying value \$
Bonds	5,934,890	53,900	-	5,988,790

## 6 Investments in private companies

During the year, INO entered into agreements granting companies licences to use INO-owned technology. In 2010, as part of certain of these agreements, INO subscribed to the share capital of four companies for a stated amount of \$268,103. In addition, a fully depreciated interest that was acquired previously was redeemed by the issuing company for an amount of \$560,280. This amount was included in revenues as "Technology transfer agreements and other agreements".

	<b>2010</b> \$	<b>2009</b> \$
Attributed value	4,668,361	4,712,621
Loss	(3,662,258)	(3,974,621)
	<u>1,006,103</u>	<u>738,000</u>

No losses in the investment portfolio were recognized in the statement of operations during the year (\$371,370 in 2009).

# National Optics Institute

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## 7 Capital assets

			<u>2010</u>	<u>2009</u>
	<u>Cost</u>	<u>Accumulated</u>	<u>Net amount</u>	<u>Net amount</u>
	\$	depreciation	\$	\$
		\$		
Lands	1,262,550	-	1,262,550	1,262,550
Building	33,861,382	11,254,729	22,606,653	23,321,423
Lease improvements	73,984	14,797	59,187	-
Research equipment	51,884,152	44,248,512	7,635,640	6,765,152
Production equipment	374,264	314,564	59,700	92,377
Office and laboratory furniture and equipment	4,822,275	3,587,452	1,234,823	1,135,244
Vehicles	55,494	23,557	31,937	18,685
	<u>92,334,101</u>	<u>59,443,611</u>	<u>32,890,490</u>	<u>32,595,431</u>

## 8 Bank loans

INO has an authorized line of credit of CAN\$3,500,000 (including a limit of US\$250,000 for a standby line of credit) which bears interest at prime rate and is renewable annually. It also has standby line of credit of US\$250,000 for one or several foreign exchange contracts. Under the terms of the agreement, INO is subject to a restrictive covenant as to maintaining a minimum financial ratio, which has been respected as at March 31, 2010. As at March 31, 2010, this facility was unused.

INO also has a temporary line of credit of \$2,400,000 obtained as part of the program to finance the purchase of equipment with the Government of Québec. Under the terms of the credit agreement, the balance of the temporary line of credit will have to be repaid on September 30, 2010. As at March 31, 2010, an amount of \$1,617,813 was used under this credit facility.

# National Optics Institute

Notes to Financial Statements

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## 9 Long-term debt

	2010 \$	2009 \$
Term loans		
Original amount of \$8,000,000, 4.79%, secured by an \$8,000,000 hypothec-assignment of the grant contract with the Government of Québec, repayable in semi-annual instalments of \$313,080, including interest and a final instalment of \$6,320,479 in March 2011 *	6,334,025	6,645,550
Original amount of \$2,000,000, bearing interest at the prime rate plus 0.50%, secured by an immovable hypothec, repayable in monthly capital instalments of \$23,809, maturing in March 2011	285,671	571,385
Original amount of \$650,000, 5.27%, secured by immovable hypothecs, repayable in equal and consecutive monthly instalments of \$6,980 including interest, maturing in 2017	489,468	545,817
Original amount of \$2,774,732, 4.2525%, secured by a \$2,774,732 hypothec-assignment of the grant contract with the Government of Québec, repayable in equal semi-annual and consecutive instalments of \$497,474, including interest and a final instalment of \$475,536 in October 2010 *	943,085	1,868,391
Original amount of \$2,754,500, 3.3695%, secured by a \$2,754,500 hypothec-assignment of the grant contract with the Government of Québec, repayable in equal semi-annual and consecutive instalments of \$486,508, including interest and a final instalment of \$486,854 in October 2011 *	1,867,118	2,754,500
Original amount of \$2,609,130, 3.081% secured by a \$2,609,130 hypothec-assignment of the grant contract with the Government of Québec, payable in equal semi-annual and consecutive instalments of \$458,544 including interest beginning in March 2010 and a final instalment of \$458,800 in September 2012 *	2,190,453	-
Financial support repayable to Canada Economic Development as part of the Agrophotonic Program, for a notional amount of \$699,929, non-interest-bearing (effective rate of 6.96%), repayable in annual instalments from August 1, 2010 to August 1, 2015. Instalments will be equal to 10% of the revenue generated from marketing the developed products under this program between the date that the marketing of this program commences and March 31, 2010, the non-repaid balance will be payable on August 1, 2016, if necessary	488,517	456,717
	<hr/> 12,598,337	<hr/> 12,842,360
Less: Current portion	9,461,847	2,466,276
	<hr/> <hr/> 3,136,490	<hr/> <hr/> 10,376,084

\* Repayments are made by the Government of Québec directly to the financial institution (note 3b).

# National Optics Institute

Notes to Financial Statements

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Principal payments required in each of the next five years are as follows:

	\$
2011	9,461,847
2012	1,894,509
2013	517,760
2014	69,539
2015	73,293

## 10 Supplementary information to the statement of cash flows

(a) Net change in non-cash operating working capital items

	2010 \$	2009 \$
Accounts receivable	161,733	(48,677)
Financial support receivable	516,155	2,270,764
Inventories	281,973	(155,577)
Research contracts in progress	(333,993)	38,951
Prepaid expenses	133,597	3,516
Accounts payable and accrued liabilities	1,750,588	(443,131)
Deferred revenues and advances on contracts	395,065	78,218
Employee future benefits	(1,040,150)	(511,582)
	<u>1,864,968</u>	<u>1,232,482</u>

(b) Operations not affecting cash

	2010 \$	2009 \$
Acquisition of capital assets included in accounts payable and accrued liabilities	278,689	366,108
Acquisition of an investment in a private company applied against deferred revenues	259,200	-
Increase in deferred contributions applied against financial support receivable	2,926,496	2,558,022
Capital repayment of long-term debt by the Government of Québec	2,542,891	1,203,463

(c) Interest paid

	56,836	72,126
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# National Optics Institute

Notes to Financial Statements

March 31, 2010

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## 11 Employee future benefits

INO offers employee future benefit plans, including a defined benefit plan guaranteeing the payment of pension benefits to some of its employees.

### (a) Defined benefit pension plan

The most recent actuarial valuation of the pension plan was performed on December 31, 2008 and included projections to December 31, 2009. Information related to the defined benefit pension plan is as follows:

	2010 \$	2009 \$
<b>Accrued benefit obligations</b>		
Accrued benefit obligations	17,833,900	14,607,300
Fair value of plan assets	19,464,600	16,302,400
	<hr/>	<hr/>
Funded status	1,630,700	1,695,100
Balance of unamortized amounts	(2,359,500)	(3,467,100)
	<hr/>	<hr/>
Accrued benefit obligations	(728,800)	(1,772,000)
	<hr/>	<hr/>

Plan asset allocations are as follows:

	<b>% of plan assets</b>	
	2010	2009
Canadian stocks	23	15
Foreign stocks	34	29
Current assets	9	22
Bonds	34	34
	<hr/>	<hr/>
	100	100
	<hr/>	<hr/>

The significant actuarial assumptions adopted by INO are as follows:

	2010 %	2009 %
Accrued benefit obligations		
Discount rate	6.50	7.50
Rate of compensation increase	2.50	3.50
Cost of benefits		
Discount rate	7.50	5.50
Expected return on plan assets	6.00	6.75

# National Optics Institute

## Notes to Financial Statements

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Effective April 1, 2007, INO decided to no longer accept new members to its defined benefit pension plan, while maintaining the plan conditions for members who joined the plan before this date.

Under the laws governing defined benefit pension plans, INO will have to make special contributions to address the plan's technical and solvency deficits.

Special contributions will be made to the plan in consideration of the recommendations provided in the last actuarial valuation of the plan as at December 31, 2008. Instalments will be paid as follows over the forthcoming years:

	\$
2011	693,180
2012	322,200
2013	322,200
2014	322,200
2015	241,650
	<u>1,901,430</u>

During the year, INO's contributions were \$1,521,100 (\$1,413,100 in 2009) including special contributions of \$823,080 (\$895,650 in 2009). In addition, the benefits paid by the plan amount to \$1,401,200 in 2010 (\$1,122,700 in 2009).

Changes in accrued benefit obligations are as follows:

	2010 \$	2009 \$
Balance – Beginning of year	1,772,000	2,113,395
Expenses for the year	477,900	1,071,705
INO's contributions	<u>(1,521,100)</u>	<u>(1,413,100)</u>
Balance – End of year	<u>728,800</u>	<u>1,772,000</u>

(b) Defined contribution plan

On April 1, 2007, INO implemented a defined contribution pension plan for employees hired after March 31, 2007. During the year, the contributions paid by INO totalled \$131,606 (\$101,182 in 2009).

# National Optics Institute

Notes to Financial Statements

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(c) Other employee future benefits

As at March 31, 2010, the obligations under the other employee future benefits are \$107,153 (\$104,103 in 2009). The year's increase of the provision relating to these obligations resulted in an increase in salaries and fringe benefit expenses for the year of \$3,050 (decrease of \$23,073 in 2009).

As at December 31, employee future benefit liabilities are as follows:

	2010 \$	2009 \$
Defined benefit pension plan	728,800	1,772,000
Other employee future benefits	107,153	104,103
	<hr/>	<hr/>
	835,953	1,876,103
	<hr/>	<hr/>

## 12 Financial instruments and risk management

Because of its financial assets and liabilities, INO is exposed to the following risks associated with the use of financial instruments: currency risk, interest rate risk and credit risk. The following analysis can be used to evaluate the risks:

(a) Currency risk

A significant portion of "Purchases of goods and services" as well as "Sales and contracts" are made in foreign currencies, mainly in US dollars and euros. INO's excess of revenues over expenses is therefore exposed to foreign currency fluctuations.

As at March 31, 2010, INO has outstanding contracts under which it has committed to sell US\$506,800 at rates ranging from 1.0507 to 1.0785 between April 12, 2010 and August 10, 2010 and 70,000 euros at the rate of 1.5771 on April 15, 2010. In addition, INO has committed to purchase US\$86,200 at the rate of 1.2447 between July 9, 2010 and September 22, 2010. The purpose of these contracts is to hedge sales and purchases in US dollars and euros, but INO did not designate them as part of hedging relationships. Thus, the negative fair value of these contracts, as at March 31, 2010, of \$13,579 (\$45,132 in 2009) has been recognized in the statement of operations and under accounts payable and accrued liabilities in the balance sheet.

# National Optics Institute

## Notes to Financial Statements

March 31, 2010

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The balance sheet includes the following significant amounts in Canadian dollars for financial assets and liabilities whose cash flows are denominated in the following currencies:

	2010	2009
	\$	\$
In US dollars		
Cash	115,157	637,270
Accounts receivable	862,294	695,562
Accounts payable	407,209	527,291

(b) Interest rate risk

The interest rate risk refers to the effect of interest rate change on the fair value of INO's financial assets and liabilities. Changes in interest rates have an effect on the value of corporate bonds.

In addition, INO deems its exposition to interest rate risk on its long-term debts to be minimal since most of its interest is paid by the Government of Québec.

(c) Credit risk

INO's main financial assets, which are subject to a credit risk, are comprised of cash, accounts receivable and security investments. The carrying value of the financial assets on the balance sheet represents the maximum credit risk as at the balance sheet date.

INO's credit risk is attributed mainly to its accounts receivable and its security investments. The amounts are respectively presented in the balance sheet, net of the allowance for doubtful accounts and the provision for a permanent decline in value.

The allowance for doubtful accounts is the result of an estimate by INO's management based on previous experience and its assessment of the current economic climate. To reduce the risk, management has adopted credit policies that include a regular review of credit limits. INO has two major clients that represent approximately 30% of its total accounts receivable as at March 31, 2010. The allowance for doubtful accounts amounts to \$200,000 as at March 31, 2010 (\$556,000 in 2009).

The credit risk associated with cash and term deposits is limited since these are held by known financial institutions. The credit risk for corporate bonds is limited because they carry high credit ratings assigned by national credit agencies.

# National Optics Institute

Notes to Financial Statements

March 31, 2010

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(d) Fair value

The fair value of cash, accounts receivable, current portion of financial support receivable related to the Internal Research Program, excess of outstanding cheques over bank balances, bank loans, as well as accounts payable and accrued liabilities approximates their carrying value due to their short-term maturity.

The fair value of security investments is established on the basis of bid prices.

The fair value of long-term debts bearing interest at a floating rate approximates their carrying value because the financing cost will fluctuate based on the market and it has financing conditions that INO can currently obtain.

The fair value of long-term debts bearing interest at fixed rates and secured by the Government of Québec has not been calculated since a corresponding amount of financial support receivable has been accounted for.

Finally, the fair value of the long-term debt with a carrying value of \$489,468 (\$545,817 in 2009) approximates to \$437,000 as at March 31, 2010 (\$448,000 in 2009).

## 13 Commitments

(a) Long-term commitments

Payments, including expenses, required over the next five years are as follows:

	<b>Operating leases</b>	<b>Natural gas</b>	<b>Maintenance contract</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
2011	37,736	212,000	132,577
2012	41,412	212,000	155,771
2013	30,606	17,667	155,771
2014	24,641	-	-
2015	6,160	-	-

(b) Market development agreements or expenses

Under these agreements, INO is committed to pay \$344,900 in 2011 and \$8,750 in 2012 as market development fees or expenses to companies or individuals.

# **National Optics Institute**

Notes to Financial Statements

**March 31, 2010**

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(c) Foreign exchange contracts

Subsequent to March 31, 2010, INO committed to sell US dollars under foreign exchange contracts amounting to US\$325,000 at a rate of 1.0469 maturing in August and October 2010.

## **14 Capital management**

Funding for INO's activities is provided by several government financial support programs. These programs impose certain requirements on the way the funds are used. During the year, INO had satisfied these requirements.

## **15 Comparative figures**

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