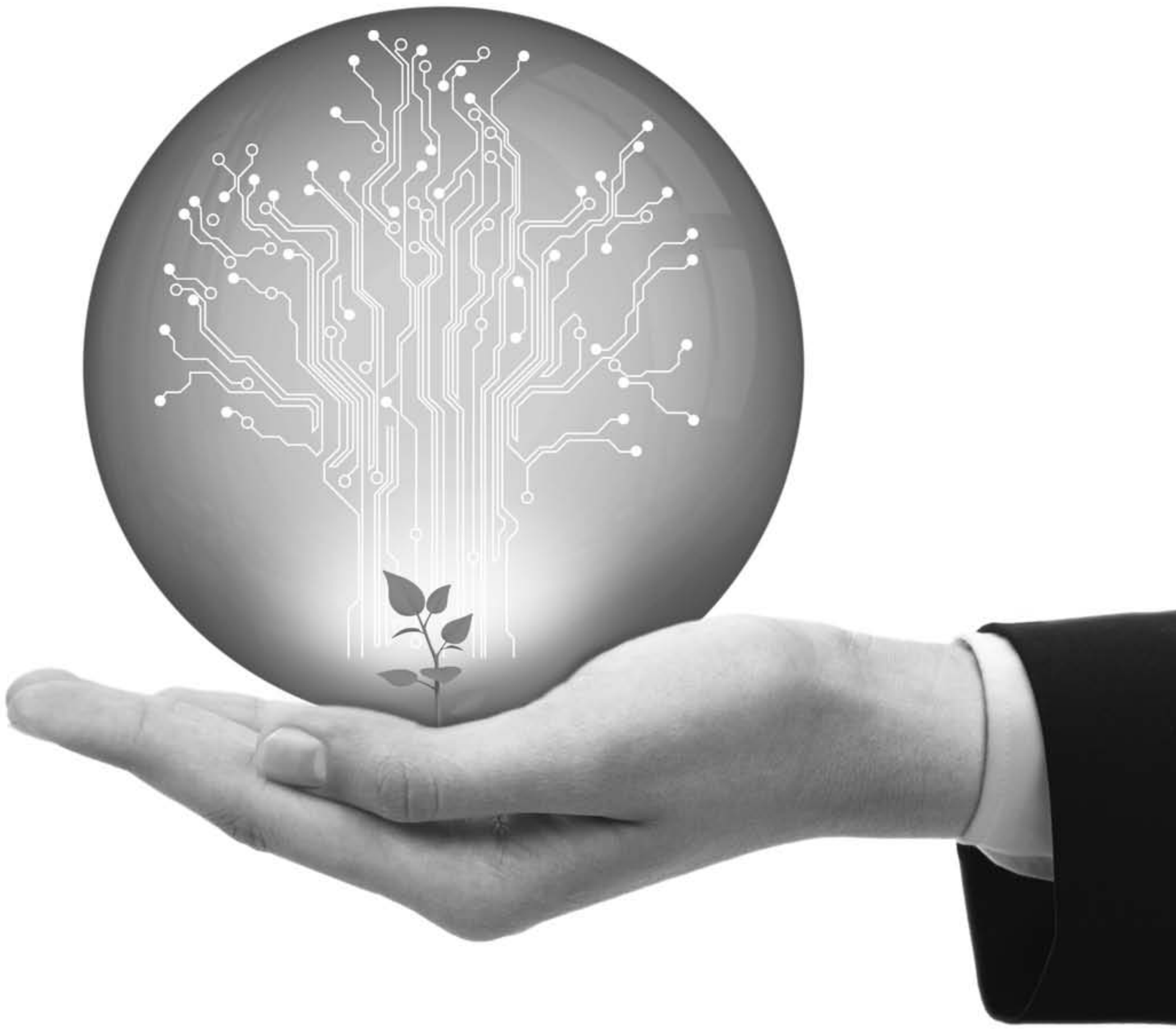
ROI
RETURN ON INNOVATION

Ontario Centres of Excellence Inc.

Financial Statements

Year ended March 31, 2011



Onta io Centres of Excellence

Where Next Happens

Ontario

Ontario Centres of Excellence (OCE) is funded by the Government of Ontario.
OCE is a member of the Ontario Network of Excellence (ONE).

Ontario Centres of Excellence (OCE) Inc. drives the commercialization of cutting-edge research across key market sectors to build the economy of tomorrow and secure Ontario's global competitiveness. In doing this, OCE fosters the training and development of the next generation of innovators and entrepreneurs and is a key partner with Ontario's industry, universities, colleges, research hospitals, investors and governments. Ontario Centres of Excellence covers four key areas of convergence – advanced manufacturing, advanced health technologies; energy and environment; and information, communications and digital media. A member of the Ontario Network of Excellence (ONE), OCE is funded by the Government of Ontario and is a key partner in delivering Ontario's Innovation Agenda. OCE through its Centre for Commercialization of Research (CCR), an initiative financially supported by the federal government, also acts as a catalyst which allows innovative businesses to grow and achieve sustainable, commercial success and global competitiveness.

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INDEPENDENT AUDITOR'S REPORT

June 23, 2011

To the Members of Ontario Centres of Excellence Inc.

We have audited the accompanying financial statements of **Ontario Centres of Excellence Inc.**, which comprise the balance sheet as at March 31, 2011 and the statements of operations, changes in fund balance and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, 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 financial statements present fairly, in all material respects, the financial position of Ontario Centres of Excellence Inc. as at March 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario

'PricewaterhouseCoopers' refers to PricewaterhouseCoopers LLP, 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 and independent legal entity.

BALANCE SHEET

AS AT MARCH 31, 2011

	2011	2010
	$	$
Assets		
Current assets		
Cash and cash equivalents	33,731,787	35,757,659
Accounts receivable	628,616	812,866
Grants receivable (note 3)	561,000	5,559,906
Prepaid expenses	191,672	137,223
	35,113,075	42,267,654
Loans receivable (note 4)	39	28
Investments (note 5)	22,539	16,934
Property and equipment (note 6)	877,020	1,198,698
	36,012,673	43,483,314
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	7,764,540	9,946,614
Deferred grants and contributions (note 7)	12,757,497	13,690,812
	20,522,037	23,637,426
Long-term deferred grants and contributions (note 7)	6,859,288	11,419,230
Deferred lease obligations (note 9)	64,938	79,524
	27,446,263	35,136,180
Fund balance	8,566,410	8,347,134
	36,012,673	43,483,314

Commitments (note 10)

Approved by the Board of Directors

Michael Nobrega Director

[signature] Director

STATEMENT OF CHANGES IN FUND BALANCE

FOR THE YEAR ENDED MARCH 31, 2011

	2011	2010
	$	$
Fund balance – Beginning of year	8,347,134	8,029,056
Excess of revenue over expenses for the year	213,649	318,208
Unrealized gain (loss) on investments	5,627	(130)
Fund balance – End of year	8,566,410	8,347,134

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED MARCH 31, 2011

Revenue	
Grant	
Industry contributions	
Other government contributions	
Interest and other income	
Expenses	
Program expenditures	
Research	
Commercialization	
Talent	
Technology transfer partnerships	
Knowledge exchange	
Program development	
Program support and administration	
Excess of revenue over expenses for the year	

				2011	2010
General fund	Investment Accelerator Fund	Centre for Commercialization of Research	Special Energy Funds	Total	Total
$	$	$	$	$	$
27,275,862	–	–	–	27,275,862	36,124,980
1,084,268	–	19,500	255,035	1,358,803	3,159,337
1,079	3,631,640	5,271,653	2,560,450	11,464,822	15,388,587
1,065,023	–	71,224	–	1,136,247	1,081,698
29,426,232	3,631,640	5,362,377	2,815,485	41,235,734	55,754,602
10,643,332	–	–	2,621,578	13,264,910	21,869,513
1,528,966	2,950,045	3,340,791	–	7,819,802	13,938,632
1,591,972	–	–	–	1,591,972	2,255,422
3,558,325	–	–	–	3,558,325	–
1,454,339	–	295,032	–	1,749,371	1,498,830
18,776,934	2,950,045	3,635,823	2,621,578	27,984,380	39,562,397
6,562,047	681,595	1,292,226	193,907	8,729,775	10,410,313
3,873,602	–	434,328	–	4,307,930	5,463,684
29,212,583	3,631,640	5,362,377	2,815,485	41,022,085	55,436,394
213,649	–	–	–	213,649	318,208

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2011

	2011	2010
	$	$
Cash provided by (used in)		
Operating activities		
Excess of revenue over expenses for the year	213,649	318,208
Items not involving cash		
Amortization of property and equipment	435,827	399,354
Amortization of deferred lease obligations	(14,586)	(21,203)
Writedown of loans receivable (note 4)	4,765,916	6,695,358
Writeoff of loan receivable (note 4)	23	–
Gain on sale of investments	(344,215)	(6)
Changes in non-cash operating working capital		
Accounts receivable	184,250	118,717
Grants receivable	4,998,906	3,314,944
Prepaid expenses	(54,449)	13,264
Accounts payable and accrued liabilities	(2,182,074)	(2,779,458)
Deferred grants and contributions	(5,493,257)	(6,291,802)
	2,509,990	1,767,376
Investing activities		
Purchase of property and equipment	(114,149)	(370,853)
Proceeds on sale of investments	344,237	1,714
Net increase in loans receivable (note 4)	(4,765,950)	(6,695,363)
	(4,535,862)	(7,064,502)
Decrease in cash and cash equivalents during the year	(2,025,872)	(5,297,126)
Cash and cash equivalents – Beginning of year	35,757,659	41,054,785
Cash and cash equivalents – End of year	33,731,787	35,757,659

1. Nature of the organization

Ontario Centres of Excellence Inc. (OCE) was incorporated under the Corporations Act (Ontario) on July 3, 2003, as a not-for-profit corporation without share capital. OCE's principal objectives are: to stimulate, promote, foster, sponsor and direct fundamental and applied research in support of the changing needs of, and challenges faced by, Ontario industries; to facilitate the training and education of researchers, scholars, scientists and engineers in areas relevant to Ontario industries; and to facilitate the transfer, sharing and diffusion of learning, knowledge and technology between Ontario universities and industries.

2. Summary of significant accounting policies

The accounting principles of OCE conform to accounting principles generally accepted for not-for-profit organizations. Significant accounting policies adopted by OCE are summarized as follows:

Revenue recognition

OCE funds various research projects and activities out of funds received as grant revenue from the Ministry of Research and Innovation (MRI) and from industry and other contributors. OCE follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Expenses are first applied against MRI grant revenue based on budgeted project costs. Contributions for the purchase of property and equipment are deferred and amortized into revenue on a straight-line basis at a rate corresponding with the amortization rate for the related property and equipment. 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.

Interest income from loans receivable is recorded on a cash basis due to the uncertainty of the future performance and viability of the companies to which such loans have been issued.

Interest from short-term investments is recorded on an accrual basis, with amounts being recorded in the period in which they are earned.

Additionally, on a management reporting basis, OCE recognizes and reports on cash and in-kind contributions provided directly to performing organizations by partners who co-fund various projects and activities.

Unrestricted fund balances

Unrestricted funds represent accumulated income (net) from other than government grants and industry contributions and include interest income and income from other miscellaneous sources. The unrestricted funds are dedicated to OCE's ongoing programs.

Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid investments with initial maturities of three months or less.

Loans receivable

Loans receivable are carried at a nominal value due to the uncertainty in the future performance and viability of the underlying companies. An allowance against face value recognizes this uncertainty. Any funds collected as repayment of the principal or interest are recognized as an offset to program expenditures at the time of the repayment.

2. Summary of significant accounting policies (continued)

Investments

Investments are recorded at fair value. OCE receives shares of non-affiliated companies, representing either a recovery of OCE's costs associated with a research project or compensation for the work OCE provides to bring the opportunity to an investment ready state and as part of the consideration for issuing the debentures. These investments are in companies in which OCE has neither the control nor the ability to exercise significant influence. The investments are recorded at nominal amounts due to the uncertainty in the future performance and viability of the underlying companies. Subsequent investments in non-affiliated companies as a result of rights granted to OCE are recorded at the lower of cost and fair value. Proceeds from the sale of the investments are recognized as revenue at the time the investments are sold.

Property and equipment

Purchased property and equipment for use by OCE are recorded at cost. Amortization is provided on a straight-line basis over their estimated useful lives as follows:

Computer equipment	3 years
Furniture and fixtures	5 years
Leasehold improvements	term of lease

In accordance with the agreements with the universities, all research equipment purchased with OCE funds is the property of the university making the purchase. Therefore, research equipment purchased is recorded as a period expense.

Deferred lease obligations

Deferred lease obligations include lease inducements and rent free periods and are being amortized on a straight-line basis over the term of the lease as a charge to lease expense.

Financial instruments

OCE utilizes various financial instruments. Unless otherwise noted, it is management's opinion that OCE is not exposed to significant interest, currency or credit risks arising from these financial instruments, except for loans receivable, which are recorded at nominal amounts due to the uncertainty in the future performance and viability of the underlying companies (note 4).

OCE classifies its financial instruments into one of the following categories based on the purpose for which it was acquired.

Assets/liabilities	Category	Measurement
Cash and cash equivalents	held-for-trading	fair value
Accounts receivable	loans and receivables	amortized cost
Investments	available-for-sale	fair value
Grants receivable	loans and receivables	amortized cost
Accounts payable and accrued liabilities	other liabilities	amortized cost

The carrying values of accounts receivable and accounts payable and accrued liabilities approximate their fair values because of their short-term realization to maturity.

The fair value of investments is determined using listed fair values. The fair values of loans receivable and investments in non-public entities are not practicable to determine due to a lack of available comparable market information. For other financial instruments, including cash and cash equivalents, accounts receivable, grants receivable and accounts payable and accrued liabilities, they approximate their respective fair values because of their short-term realization to maturity.

Income taxes

OCE is a not-for-profit organization under the *Income Tax Act (Canada)* and accordingly is exempt from income taxes under Section 149(l)(i) of the *Income Tax Act (Canada).*

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Allocation of expenses

OCE operates a number of programs, as noted in note 8 and on the statement of operations. The costs of each program include the costs of personnel, premises and other expenses that are directly related to providing the services. OCE also incurs a number of general support expenses common to the administration of OCE and each of its programs. OCE allocates certain of its general support expenses by identifying the appropriate basis of allocating each component expense, and applies that basis consistently each year. Corporate governance and general management expenses are not allocated. Other general support expenses are allocated on the following bases:

- salaries and benefits – proportionately on the same percentage as the direct salaries and benefits of these functions;
- information technology and facilities – proportionately on the basis of the total costs of the function excluding IT department costs; and
- other common expenses – proportionately on the basis of total cost.

3. Grants receivable

Grants receivable consist of the following amounts:

	2011	2010
	$	$
MRI		
General	561,000	5,390,000
Other programs	–	169,906
	561,000	5,559,906

4. Loans receivable

The loans receivable portfolio is a combination of convertible secured debentures and promissory notes, generally bearing interest at the prime lending rate set by HSBC Bank Canada plus 1% or 2% per annum; interest is calculated and compounded as per the terms of the debenture and maturity dates vary from 12 months to 36 months from the date of the agreement. The principal and accrued interest can be repaid at any time. In the event of a significant financing, the outstanding loans and interest shall be converted into common shares as per the terms of the debenture agreement. For the promissory notes, the principal and accrued interest are payable when milestones set for the funding are met.

OCE has written down the loans to a nominal value of $1, since the loans were made to start-up companies and the likelihood of repayment is considered low. OCE issued $4,765,950 of funding to various start-up companies and wrote down those amounts by a direct writeoff of $4,765,916 in the fiscal year. At March 31, 2011, the loans had a face value of $2,610,950 (2010 – $10,469,890) and a book value of $39 (2010 – $28).

During the fiscal year, OCE transferred 23 loans with a book value of $23 and a face value of $11,374,370 to MaRS Investment Accelerator Fund (IAF) at the direction of MRI. The IAF program was transferred from OCE to MaRS IAF and no compensation was received.

5. Investments

		2011		2010
	Cost	Fair value	Cost	Fair value
	$	$	$	$
Common shares and equivalents	22,737	22,539	22,759	16,934

OCE has investments in one (2010 – one) public company and 30 (2010 – 53) private companies as at March 31, 2011.

During the year, OCE transferred 22 investments to MaRS at the direction of MRI when the IAF program was transferred from OCE to MaRS.

6. Property and equipment

			2011
	Cost	Accumulated amortization	Net
	$	$	$
Computer equipment	805,576	606,833	198,743
Furniture and fixtures	543,943	259,483	284,460
Leasehold improvements	783,959	390,142	393,817
	2,133,478	1,256,458	877,020

			2010
	Cost	Accumulated amortization	Net
	$	$	$
Computer equipment	693,462	454,980	238,482
Furniture and fixtures	541,908	155,747	386,161
Leasehold improvements	783,959	209,904	574,055
	2,019,329	820,631	1,198,698

7. Deferred grants and contributions

Deferred grant revenue represents unspent government funds from MRI, which represents funding received during the current year that is related to a subsequent year's operations.

Deferred industry contributions include committed, but unspent, industry funds, which are for externally restricted operations representing funding received or receivable during the current year that is related to subsequent years' operations.

Deferred other contributions include committed but unspent government and other funds, which are restricted for the other programs representing funding received during the current year that is related to subsequent years' operations.

7. Deferred grants and contributions (continued)

						2011
	Deferred grant revenue	Deferred energy fund	Deferred industry contributions	Deferred other contributions	Deferred CCR funds	Total
	$	$	$	$	$	$
Deferred revenues – Beginning of year	750,000	10,683,700	1,054,685	1,689,403	10,932,254	25,110,042
Contributions received	31,300,000	255,035	1,618,074	1,942,237	19,500	35,134,846
Investment income earned	–	–	–	–	71,224	71,224
Amounts recognized as revenue	(27,275,862)	(2,815,485)	(1,613,963)	(3,631,640)	(5,362,377)	(40,699,327)
Deferred revenues – End of year	4,774,138	8,123,250	1,058,796	–	5,660,601	19,616,785
Current portion	4,774,138	3,571,687	1,058,796	–	3,352,876	12,757,497
Long-term portion	–	4,551,563	–	–	2,307,725	6,859,288
	4,774,138	8,123,250	1,058,796	–	5,660,601	19,616,785

						2010
	Deferred grant revenue	Deferred energy fund	Deferred industry contributions	Deferred other contributions	Deferred CCR funds	Total
	$	$	$	$	$	$
Deferred revenues – Beginning of year	–	13,227,429	2,087,329	1,889,693	14,197,394	31,401,845
Contributions received	36,874,980	357,540	1,639,935	9,289,457	–	48,161,912
Investment income earned	–	–	–	1,184	41,854	43,038
Amounts recognized as revenue	(36,124,980)	(2,901,269)	(2,672,579)	(9,490,931)	(3,306,994)	(54,496,753)
Deferred revenues – End of year	750,000	10,683,700	1,054,685	1,689,403	10,932,254	25,110,042
Current portion	750,000	5,026,851	1,054,685	1,689,403	5,169,873	13,690,812
Long-term portion	–	5,656,849	–	–	5,762,381	11,419,230
	750,000	10,683,700	1,054,685	1,689,403	10,932,254	25,110,042

8. Other programs

Special Energy Fund

MRI advanced $15 million to OCE in March 2007 for research and development for groundbreaking clean energy technologies. These funds are being invested in six projects, along with direct funding from industry partners, that will address critical issues concerning Ontario's energy sustainability. These issues include a demand for solar power as a viable, cost-effective alternative energy source, a need for programs and systems to help manage energy consumption, and an ability to access clean energy alternatives. The six projects incorporate solar, hydrogen, and energy conservation and demand management. The unique nature of the projects is expected to bring together industry leaders and academic experts from across the province. At March 31, 2011, $8,123,250 remains unspent.

Investment Accelerator Fund

MRI established the Market Readiness Program (MRP) to help increase the skills of Ontario entrepreneurs involved with innovative, technology-based companies and to help provide pre-seed capital investments to the most promising of these companies.

The MRP has two distinct components: the Investment Accelerator Fund (IAF) and the Business Mentorship and Entrepreneurship Program (BMEP). OCE transferred the program to MaRS IAF on June 14, 2010.

Centre for Commercialization of Research (CCR)

The federal Network Centre of Excellence (NCE) Secretariat, Centres of Excellence for Commercialization and Research Program (CECR Program), established the CCR program by entering into an agreement with OCE dated March 14, 2008. The goal of CCR is: to translate knowledge into wealth generating commercial applications; to train and develop the next generation of entrepreneurs, innovators and business leaders who will better enable Canadian companies to succeed in this knowledge-based global economy; and to expand the network of Canadian and international partners.

The maximum funding from the NCE Secretariat will be $14,955,575 during the five-year term of the agreement. The program is expected to end on March 31, 2013. At March 31, 2011, $5,660,601 remains unspent and is restricted for the use of CCR only.

Other projects

The following projects ended on March 31, 2010:

- Bio-Energy Research Centre
- Ontario Internship Program

Furthermore, Advance Design and Manufacturing Institute was transferred to the Professional Engineers of Ontario effective April 1, 2010.

9. Deferred lease obligations

Deferred lease obligations represent escalating lease payments and the value of the benefits obtained by OCE as a result of a rent free period and leasehold inducements made by the lessor as inducements to enter into a long-term lease agreement.

	2011	2010
	$	$
Leasehold inducements	165,480	165,480
Rent free period and escalating lease payments	109,066	90,556
	274,546	256,036
Less: Accumulated amortization	209,608	176,512
	64,938	79,524

10. Commitments

Future minimum lease payments under operating leases are as follows:

	$
2012	478,080
2013	454,397
2014	112,871
2015	47,112
Thereafter	31,408
	1,123,868

11. Pension plan

OCE operates a defined contribution pension plan. The assets of the plan are held separately from those of OCE in an independently administered fund. The pension expense is equal to the contributions paid by OCE. The contributions paid and expensed by OCE for the year amounted to $394,370 (2010 – $414,330).

12. Management of capital

OCE defines its capital as the amounts included in its fund balances.

OCE's objective when managing its capital is to safeguard OCE's ability to continue as a going concern so that it can continue to provide the appropriate level of benefits and services to its beneficiaries and its stakeholders.

A portion of OCE's capital is restricted in that OCE is required to meet certain requirements in order to utilize its resources for individual programs, as described in note 8. OCE has internal control processes to ensure the restrictions are met prior to the utilization of these resources and it has been in compliance with these restrictions throughout the year.

OCE sets the amount of fund balances in proportion to risk, manages the fund structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

ONTARIO CENTRES OF EXCELLENCE GOVERNANCE

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Public Policy Advisor, Gowling Lafleur Henderson LLP

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Partner
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Ontario Centres of Excellence

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Ontario Ministry of Research and Innovation
Deputy Minister
Ontario Ministry of Consumer Services

Brigit Viens
Senior Program Manager
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Finance and Administration

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Ontario Centres of Excellence (OCE) Inc. is a member of the Institute of Corporate Directors (ICD).

INSTITUTE OF CORPORATE DIRECTORS
INSTITUT DES ADMINISTRATEURS DE SOCIÉTÉS

Ontario Centres of Excellence (OCE) promotes a healthy workplace, which is key to well-being and, by extension, innovation.

FSC LOGO

For more information visit

www.oce-ontario.org

Ontario Centres of Excellence

Where Next Happens

ontario network of excellence

OCE is a member of the Ontario Network of Excellence (ONE).

DESIGN: BRYAN MILLS IRADESSO WWW.BMIR.COM TORONTO