

ONTARIO INNOVATION TRUST

2006 Financial Statements

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Auditors' Report

To the Directors of Ontario Innovation Trust

We have audited the balance sheet of **Ontario Innovation Trust** as at March 31, 2006 and the statements of operations and capital, changes in capital, and cash flows for the year then ended. These financial statements are the responsibility of the Trust's management. 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 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 the Trust as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PKF Hill LLP

May 31, 2006

ONTARIO INNOVATION TRUST

Balance Sheet as at March 31

	2006	2005
ASSETS		
Current assets		
Cash	\$ 26,973	\$ 89,638
Prepaid expenses	30,467	2,388
Short-term investments (market value \$56,086,103, 2004 - \$273,523,466)	56,619,622	273,523,466
Due from Innovation Institute of Ontario (note 3)	80,000	-
	56,757,062	273,615,492
Long-term investments (market value \$102,122,125)	104,069,344	-
Due from Innovation Institute of Ontario (note 3)	80,000	160,000
Property and equipment (note 4)	97,787	138,401
	\$ 161,004,193	\$ 273,913,893
LIABILITIES AND CAPITAL		
Current liabilities		
Accounts payable and accrued liabilities	\$ 111,102	\$ 115,224
Due to Innovation Institute of Ontario	203,072	176,364
	314,174	291,588
Capital		
Invested in property and equipment	97,787	138,401
Restricted for approved grants (internally restricted)	153,899,435	271,664,617
Unrestricted	6,692,797	1,819,287
	160,690,019	273,622,305
	\$ 161,004,193	\$ 273,913,893

See accompanying notes

On behalf of the Board:

Member

Member

ONTARIO INNOVATION TRUST

Statement of Operations and Capital
Year Ended March 31

	2006	2005
Revenue		
Interest income	\$ 7,595,309	\$ 7,730,308
Expenses		
Service fees paid to Innovation Institute of Ontario	687,475	615,250
Consulting and management services	665,030	559,107
Salaries and benefits (note 5)	480,678	456,653
Investment and custody services	175,678	303,788
Amortization	48,806	11,032
Travel	47,684	10,326
Office and general	36,440	33,222
Board and committee	27,905	36,710
Professional fees	15,282	25,748
Cancer Initiative Working Group	-	34,046
	2,184,978	2,085,882
Excess of revenue over expenses	5,410,331	5,644,426
Eligible project disbursements	(118,342,617)	(80,847,920)
Decrease in capital during the year	(112,932,286)	(75,203,494)
Capital, beginning of year	273,622,305	348,825,799
Capital, end of year	\$ 160,690,019	\$ 273,622,305

See accompanying notes

ONTARIO INNOVATION TRUST

Statement of Changes in Capital
Year Ended March 31

	2006				2005	
	Invested in Property and Equipment	Restricted for Approved Grants (Internally Restricted)	Unrestricted	Total	Total	
Capital, beginning of year	\$ 138,401	271,664,617	1,819,287	\$ 273,622,305	\$ 348,825,799	
Excess (deficiency) of revenue over expenses	(48,806)	-	5,459,137	5,410,331	5,644,426	
Purchase of property and equipment	8,192	-	(8,192)	-	-	
Eligible project disbursements	-	(118,342,617)	-	(118,342,617)	(80,847,920)	
Grants approved	-	577,435	(577,435)	-	-	
Capital, end of year	\$ 97,787	153,899,435	6,692,797	\$ 160,690,019	\$ 273,622,305	

See accompanying notes

ONTARIO INNOVATION TRUST

Statement of Cash Flows
Year Ended March 31

	2006	2005
Operating activities		
Excess of revenue over expenses	\$ 5,410,331	\$ 5,644,426
Eligible project disbursements	(118,342,617)	(80,847,920)
Add item not involving cash - amortization	48,806	11,032
	(112,883,480)	(75,192,462)
Net change in non-cash working capital items		
Accounts receivable	-	9,058
Prepaid expenses	(28,079)	25,806
Accounts payable and accrued liabilities	(4,122)	(15,417)
Due to Innovation Institute of Ontario	26,708	(99,338)
	(5,493)	(79,891)
Cash flows from operating activities	(112,888,973)	(75,272,353)
Investing activities		
Property and equipment purchased	(8,192)	(96,194)
Investments (net)	112,834,500	75,294,576
Due from Innovation Institute of Ontario	-	80,000
Cash flows from investing activities	112,826,308	75,278,382
Net increase (decrease) in cash during the year	(62,665)	6,029
Cash, beginning of year	89,638	83,609
Cash, end of year	\$ 26,973	\$ 89,638

See accompanying notes

ONTARIO INNOVATION TRUST

Notes to Financial Statements
Year Ended March 31, 2006

1. Purpose and Creation

The Ontario Innovation Trust (the "Trust"), an inter-vivos trust, was created on March 31, 1999. The Trust was sponsored by the Government of Ontario, Ministry of Energy, Science and Technology. However, as part of the terms of the trust agreement, the Government of Ontario is precluded from amending the trust agreement or exercising control over the Trust. The object of the Trust is to grant funding for qualifying projects that increase the capacity to conduct important, high quality research in Ontario. Eligible recipients are Ontario hospitals, universities, community colleges, and non-profit organizations that carry on (or in the opinion of the Board are capable of carrying on) research.

As at March 31, 2004, management determined that the sponsor did not intend to provide future funds. On that basis, committed eligible project disbursements are made, but new projects will only be approved to the extent that they can be funded by residual unrestricted capital. The Trust will retain sufficient operating funds for the period in which it is responsible for overseeing the projects in progress.

2. Summary of Significant Accounting Policies

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, the more significant of which are outlined below. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates.

Investments

Investments are recorded at cost. Investments include term deposits, money-market funds, bankers acceptances and Government of Canada and corporate bonds. Except for bonds, market value approximates cost. Where the market value of bonds is below cost, a write-down is not recorded when it is reasonable that the investment will be held to maturity and accordingly a loss will not be incurred.

Property and equipment

Property and equipment are recorded at cost. The Trust provides for amortization at annual rates which are expected to amortize the cost of property and equipment over their estimated useful life on a straight-line basis, as follows:

Furniture and equipment	-	5 years
Computer equipment	-	3 years
Software	-	3 years

Capital

Capital is comprised of the following components:

(a) Invested in property and equipment

Invested in property and equipment represents the net book value of property and equipment less any indebtedness thereon.

(b) Restricted for approved grants (internally restricted)

When eligible project funding is approved, the related capital is transferred from unrestricted capital to capital restricted for approved grants. Eligible project disbursements, in accordance with the terms of the grant, are charged to capital restricted for approved grants.

ONTARIO INNOVATION TRUST

Notes to Financial Statements
Year Ended March 31, 2006

2. Summary of Significant Accounting Policies - continued

(c) Unrestricted

Unrestricted capital includes sponsor contributions and the excess of revenue over expenses of the Trust.

3. Innovation Institute of Ontario (IIO)

- (a) A \$400,000 loan was made to IIO during fiscal 2002. The loan is non-interest bearing and repayable in annual instalments of \$80,000. The original maturity date of the loan was March 31, 2007, but in fiscal 2005, the Board approved the decision to defer the fiscal 2006 instalment and extend the loan agreement by one year. The new maturity date of the loan is March 31, 2008.
- (b) The IIO provides client support, proposal assessment, financial services, communications, public relations assistance, administrative and related support services and expertise to the Trust and other organizations or groups with similar objects on a not-for-profit basis.

Prior to March 2005 IIO was effectively controlled by the Trust. IIO's by-laws were amended so that, after that date, the organization was no longer a subsidiary, but continues to be a related party.

4. Property and Equipment

Property and equipment consist of the following:

	2006			2005
	Cost	Accumulated Amortization	Net	Net
Furniture and equipment	\$ 40,081	40,081	\$ -	\$ 372
Computer equipment	181,612	172,040	9,572	5,706
Software	132,323	44,108	88,215	132,323
	<u>\$ 354,016</u>	<u>256,229</u>	<u>\$ 97,787</u>	<u>\$ 138,401</u>

5. Compensation Disclosure

In accordance with the Public Sector Salaries Disclosure Act, all salaries in excess of \$100,000 have been reported to the Province of Ontario and are as follows:

	2006	2005
David Bogart	\$ 125,000	\$ 125,000
Christopher Pringle	111,668	105,445

Christopher Pringle is on a leave of absence from the Government of Ontario and additional amounts were paid him to allow him to maintain contributions to Government pension and benefits plans without penalty.

Included with consulting and management services expenses are payments in the amount of \$133,699 (2005 - \$133,750) made on a purchase of services basis to Knox Innovations for the services of Kenneth W. Knox as President and CEO of the Trust.