

ONTARIO INNOVATION TRUST

2007 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, 2007 and the statements of operations and changes in 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, 2007 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

Chartered Accountants, Licensed Public Accountants
June 1, 2007

ONTARIO INNOVATION TRUST

Balance Sheet as at March 31

	2007	2006
ASSETS		
Current assets		
Cash	\$ 95,527	\$ 26,973
Prepaid expenses	18,597	30,467
Short-term investments (market value \$27,634,709; 2005 - \$56,086,103)	27,745,822	56,217,603
Due from Innovation Institute of Ontario (note 3)	80,000	80,000
	27,939,946	56,355,043
Long-term investments (market value \$76,120,884; 2005 - \$102,122,125)	76,406,081	103,560,581
Due from Innovation Institute of Ontario (note 3)	-	80,000
Property and equipment (note 4)	87,442	97,787
	\$ 104,433,469	\$ 160,093,411

LIABILITIES AND CAPITAL

Current liabilities		
Accounts payable and accrued liabilities	\$ 216,995	\$ 111,102
Due to Innovation Institute of Ontario (note 3)	79,169	203,072
	296,164	314,174
Capital		
Invested in property and equipment	87,442	97,787
Restricted for approved grants (internally restricted)	95,886,679	153,899,435
Unrestricted	8,163,184	5,782,015
	104,137,305	159,779,237
	\$ 104,433,469	\$ 160,093,411

See accompanying notes

On behalf of the Board

Member

Member

ONTARIO INNOVATION TRUST
Statement of Operations and Changes in Capital
Year ended March 31

	2007	2006
Revenue		
Interest income	\$ 4,722,983	\$ 6,684,527
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Expenses		
Consulting and management services	662,707	665,030
Service fees paid to Innovation Institute of Ontario (note 3)	620,619	687,475
Salaries and benefits (note 7)	411,719	480,678
Investment and custody services	124,451	175,678
Office and general	62,521	36,440
Amortization	54,224	48,806
Board and committee	31,235	27,905
Travel	24,405	47,684
Professional fees	10,000	15,282
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	2,001,881	2,184,978
<hr/>		
Excess of revenue over expenses before undernoted items	2,721,102	4,499,549
Loss on sale of investments	350,278	-
Eligible project disbursements	58,012,756	118,342,617
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Deficiency of revenue over expenses	(55,641,932)	(113,843,068)
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Capital, beginning of year		
As previously stated	160,690,019	273,622,305
Adjustment (note 5)	(910,782)	-
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As restated	159,779,237	273,622,305
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Capital, end of year	\$ 104,137,305	\$ 159,779,237
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See accompanying notes

ONTARIO INNOVATION TRUST
Statement of Changes in Capital
Year ended March 31

	Invested in property and equipment	Restricted for approved grants (internally restricted)	Unrestricted	Total 2007	Total 2006
Capital, beginning of year					
As previously reported	\$ 97,787	\$ 153,899,435	\$ 6,692,797	\$ 160,690,019	\$ 273,622,305
Adjustment (note 5)	-	-	(910,782)	(910,782)	-
As restated	97,787	153,899,435	5,782,015	159,779,237	273,622,305
Deficiency of revenue over expenses	(54,224)	(58,012,756)	2,425,048	(55,641,932)	(113,843,068)
Purchase of property and equipment	43,879	-	(43,879)	-	-
Capital, end of year	\$ 87,442	\$ 95,886,679	\$ 8,163,184	\$ 104,137,305	\$ 159,779,237

See accompanying notes

ONTARIO INNOVATION TRUST
Statement of Cash Flows
Year ended March 31

	2007	2006
Operating activities		
Deficiency of revenue over expenses	\$ (55,641,932)	\$ (113,843,068)
Items not involving cash		
Amortization	54,224	48,806
Loss on sale of investments	350,278	-
	<hr/>	<hr/>
	(55,237,430)	(113,794,262)
	<hr/>	<hr/>
Net change in non-cash working capital items		
Prepaid expenses	11,870	(28,079)
Accounts payable and accrued liabilities	105,893	(4,122)
Due to Innovation Institute of Ontario	(123,903)	26,708
	<hr/>	<hr/>
	(6,140)	(5,493)
	<hr/>	<hr/>
Cash flows from operating activities	(55,243,570)	(113,799,755)
	<hr/>	<hr/>
Investing activities		
Investments (net)	55,276,003	113,745,282
Purchase of property and equipment	(43,879)	(8,192)
Due from Innovation Institute of Ontario	80,000	-
	<hr/>	<hr/>
Cash flows from investing activities	55,312,124	113,737,090
	<hr/>	<hr/>
Net change in cash during the year	68,554	(62,665)
Cash, beginning of year	26,973	89,638
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Cash, end of year	\$ 95,527	\$ 26,973
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See accompanying notes

ONTARIO INNOVATION TRUST

Notes to Financial Statements

Year ended March 31, 2007

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. By virtue of the Trust agreement, the Trust will cease to exist by its tenth anniversary, March 31, 2009.

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.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the year. Actual results could differ from those 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. The premium on bonds is amortized over the term of the bond from acquisition to maturity and recorded against interest income.

Property and equipment

Property and equipment are recorded at cost and are being amortized over their estimated useful lives on a straight-line basis. The annual amortization rates are as follows:

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

ONTARIO INNOVATION TRUST

Notes to Financial Statements

Year ended March 31, 2007

2. Summary of significant accounting policies — continued

Capital

Capital is comprised of the following components:

- (i) Invested in property and equipment

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

- (ii) 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.

- (iii) 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.

The amount due to IIO is non-interest bearing with no set terms of repayment.

4. Property and equipment

	Cost	2007 Accumulated amortization	Net	2006 Net
Furniture and equipment	\$ 104,567	\$ 63,684	\$ 40,883	\$ -
Computer equipment	161,004	158,553	2,451	9,572
Software	132,323	88,215	44,108	88,215
	<u>\$ 397,894</u>	<u>\$ 310,452</u>	<u>\$ 87,442</u>	<u>\$ 97,787</u>

ONTARIO INNOVATION TRUST

Notes to Financial Statements

Year ended March 31, 2007

5. Adjustment to capital, beginning of year

The financial statements for March 31, 2006 have been corrected for an accounting error made relating to amortizing premiums paid on bonds over the term of the bond from acquisition to maturity. This adjustment relates only to 2006.

This change has been applied on a retroactive basis, and accordingly the comparative figures and the opening unrestricted capital fund balance have been restated. The effect of this change is to decrease the opening unrestricted capital fund balance by \$910,782. Short-term investments decreased by \$402,019 and long-term investments decreased by \$508,763 at March 31, 2006. Interest income decreased by \$910,782.

6. Financial instruments

The Trust's financial instruments consist of cash, short and long-term investments, due from/to Innovation Institute of Ontario, accounts payable and accrued liabilities. It is management's opinion that the Trust is not exposed to significant interest, currency or credit risks arising from these financial instruments and that the fair value of these financial instruments approximate their carrying values.

7. Compensation disclosure

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

	2007	2006
David Bogart	\$ 143,750	\$ 125,000
Christopher Pringle	-	111,668

Included with consulting and management services expenses are payments in the amount of \$158,307 (2006 - \$133,699) made on a purchase of services basis to Knox Innovations for the services of Kenneth W. Knox as President and CEO of the Trust.