

ONTARIO INNOVATION TRUST

2008 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, 2008 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, 2008 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 25, 2008

ONTARIO INNOVATION TRUST

Balance Sheet As at March 31

	2008	2007
ASSETS		
Current assets		
Cash	\$ 77,247	\$ 95,527
Prepaid expenses	79,710	18,597
Short-term investments (2007 market value - \$27,634,709)(note 2)	82,249,145	27,745,822
Due from Innovation Institute of Ontario	-	80,000
	<hr/> 82,406,102	<hr/> 27,939,946
Long-term investments (2007 market value - \$76,120,884)(note 2)	-	76,406,081
Property and equipment (note 4)	35,891	87,442
	<hr/> \$ 82,441,993	<hr/> \$ 104,433,469

LIABILITIES AND CAPITAL

Current liabilities		
Accounts payable and accrued liabilities	\$ 320,977	\$ 216,995
Due to Innovation Institute of Ontario (note 5)	129,082	79,169
	<hr/> 450,059	<hr/> 296,164
Capital		
Invested in property and equipment	35,891	87,442
Restricted for approved grants (internally restricted)	66,620,973	95,886,679
Unrestricted	15,335,070	8,163,184
	<hr/> 81,991,934	<hr/> 104,137,305
	<hr/> \$ 82,441,993	<hr/> \$ 104,433,469

See accompanying notes

On behalf of the Board

Member

Member

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

	2008	2007
Revenue		
Investment income	\$ 4,408,152	\$ 4,372,705
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Expenditures		
Consulting and management services	657,660	662,707
Service fees paid to Innovation Institute of Ontario	568,406	620,619
Salaries and benefits	380,080	411,719
Investment and custody services	97,180	124,451
Amortization	77,778	54,224
Office and general	39,551	62,521
Professional fees	25,106	10,000
Board and committee	19,713	31,235
Travel	11,130	24,405
<hr/>		
	1,876,604	2,001,881
<hr/>		
Excess of revenue over expenditures before undernoted item	2,531,548	2,370,824
Eligible project disbursements	24,280,612	58,012,756
<hr/>		
Deficiency of revenue over expenditures	(21,749,064)	(55,641,932)
<hr/>		
Capital, beginning of year		
As previously stated	104,137,305	160,690,019
Change in accounting policy (note 2)	(396,307)	-
Correction of accounting for investment income	-	(910,782)
<hr/>		
As restated	103,740,998	159,779,237
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Capital, end of year	\$ 81,991,934	\$ 104,137,305
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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 2008	Total 2007
Capital, beginning of year					
As previously reported	\$ 87,442	\$ 95,886,679	\$ 8,163,184	\$ 104,137,305	\$ 160,690,019
Change in accounting policy (note 2)	-	-	(396,307)	(396,307)	-
Correction of accounting for investment income	-	-	-	-	(910,782)
As restated	87,442	95,886,679	7,766,877	103,740,998	159,779,237
Deficiency of revenue over expenditures	(77,778)	(24,280,612)	2,609,326	(21,749,064)	(55,641,932)
Purchase of property and equipment	26,227	-	(26,227)	-	-
Transfer (note 6)	-	(4,985,094)	4,985,094	-	-
Capital, end of year	\$ 35,891	\$ 66,620,973	\$ 15,335,070	\$ 81,991,934	\$ 104,137,305

See accompanying notes

ONTARIO INNOVATION TRUST
Statement of Cash Flows
Year ended March 31

	2008	2007
Operating activities		
Deficiency of revenue over expenditures	\$ (21,749,064)	\$ (55,641,932)
Items not involving cash		
Amortization	77,778	54,224
Unrealized gain on investments	(1,362,169)	-
Loss on sale of investments	1,240,504	350,278
	<u>(21,792,951)</u>	<u>(55,237,430)</u>
Net change in non-cash working capital items		
Prepaid expenses	(61,113)	11,870
Accounts payable and accrued liabilities	103,982	105,893
Due to Innovation Institute of Ontario	49,913	(123,903)
	<u>92,782</u>	<u>(6,140)</u>
Cash flows from operating activities	<u>(21,700,169)</u>	<u>(55,243,570)</u>
Investing activities		
Investments	21,628,116	55,276,003
Due from Innovation Institute of Ontario	80,000	80,000
Purchase of property and equipment	(26,227)	(43,879)
Cash flows from investing activities	<u>21,681,889</u>	<u>55,312,124</u>
Net change in cash during the year	(18,280)	68,554
Cash, beginning of year	95,527	26,973
Cash, end of year	<u>\$ 77,247</u>	<u>\$ 95,527</u>

See accompanying notes

ONTARIO INNOVATION TRUST

Notes to Financial Statements

Year ended March 31, 2008

1. Purpose and creation

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 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 are only approved to the extent that they can be funded by residual unrestricted capital. The Trust retains 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. Management and the Board of Directors are currently assessing issues related to an orderly discontinuance of operations, including monitoring of conditions attached to project disbursements and the distribution of residual capital.

2. Change in accounting policy

Effective April 1, 2007, the Trust adopted the provisions of CICA Section 3855, Financial Instruments - Recognition and Measurement and CICA Section 3861, Financial Instruments - Disclosure and Presentation which address the presentation, classification, recognition and measurement of financial instruments. As a result of adopting these changes, all financial instruments, previously measured at cost, are now measured at fair value.

The new standard has been applied retroactively, without restatement of prior year balances. The adoption of the provisions resulted in an increase in investments at March 31, 2008 of \$965,862, comprised of an unrealized loss of \$396,307 at April 1, 2007 and an unrealized gain of \$1,362,169 for the year ended March 31, 2008.

3. 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.

Going concern

Notwithstanding the expected discontinuance of operations after March 31, 2009, the Trust has continued to use generally accepted accounting principles applicable to a going concern. Management believes that the asset carrying values are realizable. Costs associated with the wind down of the Trust will be recognized at March 31, 2009.

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 include term deposits, money-market funds, bankers acceptances and Government of Canada and corporate bonds. Investments have been classified as held for trading financial instruments and, as such, are recorded at fair value. Unrealized gains and losses are recognized immediately in the Statement of Operations.

ONTARIO INNOVATION TRUST

Notes to Financial Statements

Year ended March 31, 2008

3. Summary of significant accounting policies — continued

Property and equipment

Property and equipment are recorded at cost and have been amortized over their estimated useful lives on a straight-line basis at the rates shown below. Effective March 31, 2009, the net book value of property and equipment will be adjusted to realizable values. The amount of the adjustment is not expected to be significant.

Furniture and equipment	2-5 years
Computer equipment	3 years
Software	3 years

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.

Future change in accounting policies

The CICA has issued the following Accounting Handbook Sections which the Trust will be required to adopt for its fiscal year ended March 31, 2009. The adoption of the new standards is not expected to have a material impact on the financial statements.

Section 1535, Capital Disclosures, requires entities to disclose their objectives, policies and processes for managing capital, as well as quantitative data about capital.

Section 3862, Financial Instruments, places an increased emphasis on risk disclosures.

ONTARIO INNOVATION TRUST

Notes to Financial Statements

Year ended March 31, 2008

4. Property and equipment

		2008		2007	
	Cost	Accumulated amortization	Net	Net	
Furniture and equipment	\$ 128,279	\$ 95,954	\$ 32,325	\$ 40,883	
Computer equipment	163,518	159,952	3,566	2,451	
Software	132,323	132,323	-	44,108	
	<u>\$ 424,120</u>	<u>\$ 388,229</u>	<u>\$ 35,891</u>	<u>\$ 87,442</u>	

5. Due to Innovation Institute of Ontario

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.

6. Transfer

In 2008, \$4,985,094 was transferred from the restricted for approved grants fund to the unrestricted fund, after a review of project commitments revealed that a number of projects were finalized at an amount lower than the initial Board approval.

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:

	2008	2007
David Bogart	\$ 150,000	\$ 143,750

Included with consulting and management services expenses are payments in the amount of \$172,990 (2007 - \$158,307) made on a purchase of services basis to Knox Innovations for the services of Kenneth W. Knox as President and CEO of the Trust.

8. Financial instruments

The Trust's financial instruments consist of cash, investments, and accounts payable. Unless otherwise noted it is management's opinion that the Trust is not exposed to significant interest, currency or credit risks.

ONTARIO INNOVATION TRUST
Notes to Financial Statements
Year ended March 31, 2008

9. Comparative amounts

Certain comparative amounts have been reclassified from those previously presented to conform to the presentation of the 2008 financial statements.