

ONTARIO INNOVATION TRUST

2009 Financial Statements

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2009 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, 2009 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, 2009 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 18, 2009

ONTARIO INNOVATION TRUST

Balance Sheet
As at March 31

| | 2009 | 2008 |
|---------------------|---------------|---------------|
| ASSETS | | |
| Cash | \$ 403,967 | \$ 77,247 |
| Accounts receivable | 2,494 | 50 |
| Prepaid expenses | 37,695 | 79,660 |
| Investments | 64,097,277 | 82,249,145 |
| Equipment (note 3) | 9,160 | 35,891 |
| | <hr/> | <hr/> |
| | \$ 64,550,593 | \$ 82,441,993 |

LIABILITIES AND CAPITAL

| | | |
|--|---------------|---------------|
| Accounts payable and accrued liabilities | \$ 787,077 | \$ 320,977 |
| Due to Innovation Institute of Ontario (note 4) | 136,042 | 129,082 |
| | <hr/> | <hr/> |
| | 923,119 | 450,059 |
| Capital | | |
| Invested in equipment | 9,160 | 35,891 |
| Restricted for approved grants (internally restricted) | 53,594,214 | 66,620,973 |
| Unrestricted | 10,024,100 | 15,335,070 |
| | <hr/> | <hr/> |
| | 63,627,474 | 81,991,934 |
| | <hr/> | <hr/> |
| | \$ 64,550,593 | \$ 82,441,993 |

See accompanying notes

On behalf of the Board

Member

Member

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

| | 2009 | 2008 |
|---|----------------------|----------------------|
| Revenue | | |
| Investment income | \$ 2,525,965 | \$ 4,408,152 |
| Expenses | | |
| Consulting and management services | 604,485 | 657,660 |
| Service fees paid to Innovation Institute of Ontario | 565,950 | 568,406 |
| Salaries and benefits | 422,453 | 380,080 |
| Travel | 11,264 | 11,130 |
| Professional fees | 47,482 | 25,106 |
| Office and general | 36,109 | 39,551 |
| Investment and custody services | 79,383 | 97,180 |
| Amortization | 33,443 | 77,778 |
| Board and committee | 20,117 | 19,713 |
| | <u>1,820,686</u> | <u>1,876,604</u> |
| Excess of revenue over expenses before undernoted items | 705,279 | 2,531,548 |
| Eligible project disbursements | 17,027,803 | 24,280,612 |
| Final projects (note 5) | 2,041,936 | - |
| | <u>(18,364,460)</u> | <u>(21,749,064)</u> |
| Capital, beginning of year | | |
| As previously stated | 81,991,934 | 104,137,305 |
| Change in accounting policy (note 2) | - | (396,307) |
| | <u>81,991,934</u> | <u>103,740,998</u> |
| Capital, end of year | <u>\$ 63,627,474</u> | <u>\$ 81,991,934</u> |

See accompanying notes

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

| | Invested in equipment | Restricted for approved grants (internally restricted) | Unrestricted | Total 2009 | Total 2008 |
|--|----------------------------------|---|---------------------|-----------------------|-----------------------|
| Capital, beginning of year | | | | | |
| As previously reported | \$ 35,891 | \$ 66,620,973 | \$ 15,335,070 | \$ 81,991,934 | \$ 104,137,305 |
| Change in accounting policy | - | - | - | - | (396,307) |
| As restated | 35,891 | 66,620,973 | 15,335,070 | 81,991,934 | 103,740,998 |
| Deficiency of revenue over expenses | (33,443) | (17,027,803) | (1,303,214) | (18,364,460) | (21,749,064) |
| Purchase of equipment | 6,712 | - | (6,712) | - | - |
| Transfer (note 5) | - | 4,001,044 | (4,001,044) | - | - |
| Capital, end of year | \$ 9,160 | \$ 53,594,214 | \$ 10,024,100 | \$ 63,627,474 | \$ 81,991,934 |

See accompanying notes

ONTARIO INNOVATION TRUST
Statement of Cash Flows
Year ended March 31

| | 2009 | 2008 |
|--|---------------------|---------------------|
| Operating activities | | |
| Deficiency of revenue over expenses | \$ (18,364,460) | \$ (21,749,064) |
| Items not involving cash | | |
| Amortization | 33,443 | 77,778 |
| Unrealized gain on investments | (85,450) | (1,362,169) |
| Loss on sale of investments | 313,208 | 1,240,504 |
| | <u>(18,103,259)</u> | <u>(21,792,951)</u> |
| Net change in non-cash working capital items | | |
| Accounts receivable | (2,444) | - |
| Prepaid expenses | 41,965 | (61,113) |
| Accounts payable and accrued liabilities | 466,100 | 103,982 |
| Due to Innovation Institute of Ontario | 6,960 | 49,913 |
| | <u>512,581</u> | <u>92,782</u> |
| Cash flows from operating activities | <u>(17,590,678)</u> | <u>(21,700,169)</u> |
| Investing activities | | |
| Investments | 17,924,110 | 21,628,116 |
| Due from Innovation Institute of Ontario | - | 80,000 |
| Purchase of equipment | (6,712) | (26,227) |
| Cash flows from investing activities | <u>17,917,398</u> | <u>21,681,889</u> |
| Net change in cash during the year | 326,720 | (18,280) |
| Cash, beginning of year | 77,247 | 95,527 |
| Cash, end of year | <u>\$ 403,967</u> | <u>\$ 77,247</u> |

See accompanying notes

ONTARIO INNOVATION TRUST

Notes to Financial Statements

Year ended March 31, 2009

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 of Directors (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. Since then, new projects have been approved to the extent that they can be funded by residual unrestricted capital.

By virtue of the Trust agreement, the Trust was to cease to exist by its tenth anniversary, March 31, 2009. However, in order to facilitate an orderly wind-up, during the year the Board approved amendments to the Trust agreement, extending the termination date to March 31, 2011. No further viable activity is to be completed subsequent to March 31, 2009 and subsequent activities of the Board are limited to fiduciary responsibilities.

Management and the Board 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.

The Trust retains sufficient operating funds for the period in which it is responsible for overseeing the projects in progress.

2. Summary of significant accounting policies

The Trust follows accounting principles generally accepted in Canada in preparing its financial statements. The significant accounting policies used are as follows:

Going concern

Notwithstanding the expected discontinuance of operations after March 31, 2011, 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, 2011.

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.

ONTARIO INNOVATION TRUST

Notes to Financial Statements

Year ended March 31, 2009

2. Summary of significant accounting policies — continued

Financial Instruments

The Canadian Institute of Chartered Accountants ("CICA") provides a temporary choice for financial instruments disclosure and the Trust has chosen to continue to apply Financial Instruments - Disclosure and Presentation, Section 3861 in place of Financial Instruments - Disclosure, Section 3862 and Financial Instruments Presentation, Section 3863. Had the Trust adopted the new standards, there would have been increased emphasis on risk disclosures including both qualitative and quantitative information about the exposures to the organization.

The Trust's financial instruments are comprised of cash, accounts receivable, investments, accounts payable and due to Innovation Institute of Ontario ("IIO").

Cash, accounts receivable, accounts payable and due to IIO approximate fair value due to their short-term maturities.

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. Fair value determination is based on active market quoted rates.

Equipment

Equipment additions are recorded at cost and amortized over their estimated useful lives on a straight-line basis at the rates shown below. Effective March 31, 2011, 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 |

Capital

Capital is comprised of the following components:

(i) Invested in equipment

Invested in equipment represents the net book value of 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.

ONTARIO INNOVATION TRUST

Notes to Financial Statements

Year ended March 31, 2009

3. Equipment

| | | 2009 | | 2008 |
|-------------------------|-------------------|-----------------------------|-----------------|------------------|
| | Cost | Accumulated amortization | Net | Net |
| Furniture and equipment | \$ 128,279 | \$ 128,279 | \$ - | \$ 32,325 |
| Computer equipment | 170,232 | 161,072 | 9,160 | 3,566 |
| | <u>\$ 298,511</u> | <u>\$ 289,351</u> | <u>\$ 9,160</u> | <u>\$ 35,891</u> |

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

5. Final Projects

During the year, \$5,500,000 was approved for commitment to various final projects. This amount was funded by \$1,498,956 of capital previously restricted for approved projects, which were finalized at less than the approved amount, and a transfer of \$4,001,044 from unrestricted capital.

The following projects were approved during the year:

Brain Project

At the meeting of April 14, 2008, the Board approved a budget of up to \$1,400,000 (increased to \$2,000,000 on December 2, 2008) to support a study into the state of neuroscience research in Ontario. During fiscal 2009, \$1,197,893 was spent on this project.

Stem Cells

At the meeting of April 14, 2008, the Board approved a budget of up to \$50,000, (increased to \$300,000 at the meeting of July 17, 2008) to support a consultative study of stem cell and regenerative medicine research in Ontario and provide advice for strategic investments in this field. During fiscal 2009, \$180,912 was spent on this project.

Bioinformatics

At the meeting of April 14, 2008, the Board approved a budget of up to \$50,000, (increased to \$100,000 at the meeting of July 17, 2008) to support a study of the technical feasibility, scientific value, and market for an integration of a biomolecular interaction database with clinical trials data. During fiscal 2009, \$23,100 was spent on this project.

International Forum on Science and Technology

At the meeting of April 14, 2008, the Board approved a budget of up to \$50,000 to study the feasibility of an annual international science and technology forum in Ontario. During fiscal 2009, \$47,755 was spent on this project.

ONTARIO INNOVATION TRUST

Notes to Financial Statements

Year ended March 31, 2009

5. Final Projects — continued

Impact Reporting

At the meeting of April 14, 2008, the Board approved a budget of up to \$1,000,000 to prepare a report on the impact of the investments made by the Trust on research infrastructure during its ten year mandate. During fiscal 2009, \$592,276 was spent on this project.

6. 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:

| | 2009 | 2008 |
|--------------|------------|------------|
| David Bogart | \$ 156,250 | \$ 150,000 |

Included with consulting and management services expenses are payments in the amount of \$174,812 (2008 - \$172,990) made on a purchase of services basis to Knox Innovations for the services of Kenneth W. Knox as President and CEO of the Trust.

7. Capital disclosures

The Trust's capital consists of funds invested in equipment, restricted for approved grants (internally restricted), as well as unrestricted funds. The Trust's objectives when managing capital are as follows:

- to safeguard existing assets and infrastructures;
- to meet commitments on approved grants; and
- to discharge all unrestricted funds before the termination date, within the terms of the trust agreement

The Trust manages the capital structure and makes adjustments as necessary in order to meet its objectives.

8. Financial instruments

It is management's opinion that the Trust is not exposed to significant interest, currency or credit risks arising from financial instruments.

9. Comparative amounts

Certain comparative amounts have been reclassified from those previously presented to conform to the presentation of the 2009 financial statements.