

ONTARIO INNOVATION TRUST

2010 Financial Statements

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Contents

	Page
Auditors' Report	1
Statement of Financial Position	2
Statement of Operations and Changes in Capital	3
Statement of Changes in Capital	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 9

Auditors' Report

To the Directors of Ontario Innovation Trust

We have audited the statement of financial position of Ontario Innovation Trust (the "Trust") as at March 31, 2010 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, 2010 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 14, 2010

ONTARIO INNOVATION TRUST
Statement of Financial Position
As at March 31

	2010	2009
ASSETS		
Cash	\$ 166,550	\$ 403,967
Accounts receivable	-	2,494
Prepaid expenses	22,619	37,695
Investments	47,535,216	64,097,277
Equipment (note 3)	6,897	9,160
	<u>\$ 47,731,282</u>	<u>\$ 64,550,593</u>
LIABILITIES AND CAPITAL		
Accounts payable and accrued liabilities	\$ 169,309	\$ 787,077
Due to Innovation Institute of Ontario (note 4)	15,238	136,042
	<u>184,547</u>	<u>923,119</u>
Capital		
Invested in equipment	6,897	9,160
Restricted for approved grants (internally restricted)	39,007,580	53,594,214
Unrestricted (note 5)	8,532,258	10,024,100
	<u>47,546,735</u>	<u>63,627,474</u>
	<u>\$ 47,731,282</u>	<u>\$ 64,550,593</u>

See accompanying notes

On behalf of the Board

Member

Member

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

	2010	2009
Revenue		
Investment income	\$ 250,633	\$ 2,525,965
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Expenses		
Consulting and management services	362,754	604,485
Service fees paid to Innovation Institute of Ontario	328,125	565,950
Salaries and benefits	173,287	422,453
Investment and custody services	50,875	79,383
Office and general	43,359	36,109
Professional fees	19,814	47,482
Board and committee	18,755	20,117
Travel	13,729	11,264
Amortization	6,009	33,443
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	1,016,707	1,820,686
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Excess (deficiency) of revenue over expenses before undernoted items	(766,074)	705,279
Eligible project disbursements	13,376,383	17,027,803
Final projects (note 5)	1,938,282	2,041,936
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Deficiency of revenue over expenses	(16,080,739)	(18,364,460)
Capital, beginning of year	63,627,474	81,991,934
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Capital, end of year	\$ 47,546,735	\$ 63,627,474
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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 (note 5)	Total 2010	Total 2009
Capital, beginning of year	\$ 9,160	\$ 53,594,214	\$ 10,024,100	\$ 63,627,474	\$ 81,991,934
Deficiency of revenue over expenses	(6,009)	(13,376,383)	(2,698,347)	(16,080,739)	(18,364,460)
Purchase of equipment	3,746	-	(3,746)	-	-
Transfer - unused project grants	-	(1,210,251)	1,210,251	-	-
Capital, end of year	\$ 6,897	\$ 39,007,580	\$ 8,532,258	\$ 47,546,735	\$ 63,627,474

See accompanying notes

ONTARIO INNOVATION TRUST
Statement of Cash Flows
Year ended March 31

	2010	2009
Operating activities		
Deficiency of revenue over expenses	\$ (16,080,739)	\$ (18,364,460)
Items not involving cash		
Amortization	6,009	33,443
Unrealized gain on investments	(359,333)	(85,450)
Loss on sale of investments	903,864	313,208
	<hr/>	<hr/>
	(15,530,199)	(18,103,259)
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Net change in non-cash working capital items		
Accounts receivable	2,494	(2,444)
Prepaid expenses	15,076	41,965
Accounts payable and accrued liabilities	(617,768)	466,100
Due to Innovation Institute of Ontario	(120,804)	6,960
	<hr/>	<hr/>
	(721,002)	512,581
	<hr/>	<hr/>
Cash flows from operating activities	(16,251,201)	(17,590,678)
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Investing activities		
Investments	16,017,530	17,924,110
Purchase of equipment	(3,746)	(6,712)
	<hr/>	<hr/>
Cash flows from investing activities	16,013,784	17,917,398
	<hr/>	<hr/>
Net change in cash during the year	(237,417)	326,720
Cash, beginning of year	403,967	77,247
	<hr/>	<hr/>
Cash, end of year	\$ 166,550	\$ 403,967
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See accompanying notes

ONTARIO INNOVATION TRUST

Notes to Financial Statements

Year ended March 31, 2010

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 objective 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 2009 the Board approved amendments to the Trust agreement, extending the termination date to March 31, 2011. No further viable activity was 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 financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"), the more significant of which are outlined below.

Going concern

Notwithstanding the expected discontinuance of operations after March 31, 2011, the Trust has continued to use Canadian GAAP 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 GAAP 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, 2010

2. Summary of significant accounting policies — continued

Financial Instruments

The Canadian Institute of Chartered Accountants ("CICA") provides a choice for financial instruments disclosure and the Trust has chosen to apply Financial Instruments - Disclosure and Presentation, Section 3861 in place of Financial Instruments - Disclosure, Section 3862 and Financial Instruments Presentation, Section 3863.

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 include short-term cash equivalents and Government of Canada 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 have been recorded at cost and are amortized over their estimated useful lives on a straight-line basis.

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. When an approved project is finalized at less than the approved amount, the remaining capital is transferred back to unrestricted capital.

(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, 2010

3. Equipment

	Cost	2010 Accumulated amortization	Net	2009 Net
Computer equipment	\$ 173,978	\$ 167,081	\$ 6,897	\$ 9,160

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, unsecured, with no set terms of repayment.

5. Final Projects

The following projects were completed or in progress at year-end and are being funded from unrestricted capital:

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 and \$2,200,000 on March 23, 2009) to support a study into the state of neuroscience research in Ontario. During fiscal 2010, \$952,787 (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 2010, \$1,890 (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 2010, \$Nil (2009 - \$23,100) was spent on this project, as an interested partner willing to contribute to the project was not identified.

International Forum on Science and Technology

At the meeting of April 14, 2008, the Board approved a budget of up to \$50,000 (increased to \$850,000 at the meeting of March 23, 2009) to study the feasibility of an annual international science and technology forum in Ontario. During fiscal 2010, \$729,122 (2009 - \$47,755) was spent on this project.

ONTARIO INNOVATION TRUST

Notes to Financial Statements

Year ended March 31, 2010

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 2010, \$214,483 (2009 - \$592,276) was spent on this project.

Applied Research

At the meeting of March 23, 2009, the Board approved a budget of \$275,000 to support a study that would explore, with the participation of industry and community colleges, the potential of harnessing the applied research capability of community colleges and recommend the mechanisms by which that research capacity can be maximized. During fiscal 2010, \$40,000 (2009 - \$Nil) was spent on this project.

6. 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:

	2010	2009
David Bogart	\$ 131,250	\$ 156,250

Included with consulting and management services expenses are payments in the amount of \$151,662 (2009 - \$174,812) 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

As presented in note 2, 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.