

ONTARIO INNOVATION TRUST

2003 Non-Consolidated Financial Statements

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Contents

	Page
Auditors' Report	1
Non-Consolidated Balance Sheet	2
Non-Consolidated Statement of Operations and Capital	3
Non-Consolidated Statement of Changes in Capital	4
Non-Consolidated Statement of Cash Flows	5
Notes to Non-Consolidated Financial Statements	6 - 8

Auditors' Report

To the Directors of Ontario Innovation Trust

We have audited the non-consolidated balance sheet of **Ontario Innovation Trust** as at March 31, 2003 and the non-consolidated statements of operations and capital, changes in capital, and cash flows for the year then ended. These non-consolidated 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 non-consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles except that they are prepared on a non-consolidated basis as explained in note 1.

PKF Hill LLP

May 29, 2003

ONTARIO INNOVATION TRUST

Non-Consolidated Balance Sheet as at March 31

	2003	2002
ASSETS		
Current assets		
Cash	\$ 471,083	\$ 259,887
Accounts receivable	14,766	83,923
Prepaid expenses	22,415	5,560
Short-term investments	478,589,376	576,606,751
Due from Innovation Institute of Ontario (note 3)	80,000	80,000
	479,177,640	577,036,121
Due from Innovation Institute of Ontario (note 3)	240,000	320,000
Capital assets (note 4)	23,451	81,878
Due from Government of Ontario (note 5)	300,000,000	-
	\$ 779,441,091	\$ 577,437,999
LIABILITIES AND CAPITAL		
Current liabilities		
Accounts payable and accrued liabilities	\$ 126,850	\$ 115,391
Due to Innovation Institute of Ontario	472,298	481,955
	599,148	597,346
Capital		
Invested in capital assets	23,451	81,878
Restricted for approved grants (internally restricted)	325,718,808	204,311,548
Unrestricted	453,099,684	372,447,227
	778,841,943	576,840,653
	\$ 779,441,091	\$ 577,437,999

See accompanying notes

On behalf of the Board:

Member

Member

ONTARIO INNOVATION TRUST

Non-Consolidated Statement of Operations and Capital (note 5)
Year Ended March 31

	2003	2002
Revenue		
Interest income	\$ 14,722,737	\$ 25,561,058
Expenses		
Cancer Initiative Working Group (note 6)	819,810	-
Structural Genomics Consortium (note 7)	65,252	-
Service fees paid to Innovation Institute of Ontario	668,750	666,192
Consulting and management services	654,527	989,433
Investment and custody services	425,952	399,504
Salaries and benefits (note 8)	364,223	365,933
Office and general	95,515	68,188
Amortization	67,309	66,073
Professional fees	34,260	50,940
Travel	23,615	43,336
Board and committee	20,804	14,570
Contribution to Innovation Institute of Ontario (note 9)	-	250,000
	3,240,017	2,914,169
Excess of revenue over expenses	11,482,720	22,646,889
Sponsor contribution from the Government of Ontario, Ministry of Energy, Science and Technology (note 5)	300,000,000	-
Eligible project disbursements	(109,481,430)	(120,511,588)
Increase (decrease) in capital during the year	202,001,290	(97,864,699)
Capital, beginning of year	576,840,653	674,705,352
Capital, end of year	\$ 778,841,943	\$ 576,840,653

See accompanying notes

ONTARIO INNOVATION TRUST

Non-Consolidated Statement of Changes in Capital
Year Ended March 31

	2003				2002
	Invested in Capital Assets	Restricted for Approved Grants (Internally Restricted)	Unrestricted	Total	Total
Capital, beginning of year	\$ 81,878	204,311,548	372,447,227	\$ 576,840,653	\$ 674,705,352
Excess (deficiency) of revenue over expenses	(67,309)	-	11,550,029	11,482,720	22,646,889
Sponsor contribution	-	-	300,000,000	300,000,000	-
Purchase of capital assets	8,882	-	(8,882)	-	-
Eligible project disbursements	-	(109,481,430)	-	(109,481,430)	(120,511,588)
Grants approved	-	230,888,690	(230,888,690)	-	-
Capital, end of year	\$ 23,451	325,718,808	453,099,684	\$ 778,841,943	\$ 576,840,653

See accompanying notes

ONTARIO INNOVATION TRUST
 Non-Consolidated Statement of Cash Flows
 Year Ended March 31

	2003	2002
Operating activities		
Excess of revenue over expenses	\$ 11,482,720	\$ 22,646,889
Sponsor contribution	300,000,000	-
Eligible project disbursements	(109,481,430)	(120,511,588)
Add item not involving cash - amortization	67,309	66,073
	<hr/> 202,068,599	<hr/> (97,798,626)
Net change in non-cash working capital		
Accrued interest receivable	-	4,407,399
Accounts receivable	69,157	111,528
Prepaid expenses	(16,855)	227,976
Accounts payable and accrued liabilities	11,459	(286,628)
Due to Innovation Institute of Ontario	(9,657)	481,955
	<hr/> 54,104	<hr/> 4,942,230
Cash flows from operating activities	<hr/> 202,122,703	<hr/> (92,856,396)
Financing activities		
Due from the Government of Ontario	(300,000,000)	-
Cash flows from financing activities	<hr/> (300,000,000)	<hr/> -
Investing activities		
Capital assets purchased	(8,882)	(7,135)
Short-term investments	98,017,375	93,501,673
Due from Innovation Institute of Ontario	80,000	(400,000)
Cash flows from investing activities	<hr/> 98,088,493	<hr/> 93,094,538
Net increase in cash position during the year	211,196	238,142
Cash, beginning of year	259,887	21,745
Cash, end of year	<hr/> \$ 471,083	<hr/> \$ 259,887

See accompanying notes

ONTARIO INNOVATION TRUST

Notes to Non-Consolidated Financial Statements
Year Ended March 31, 2003

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.

On April 27, 2000, the board approved the creation of the Innovation Institute of Ontario ("IIO"). While the IIO is a subsidiary of the Trust, it has not been consolidated in these financial statements.

The IIO was incorporated under the Canadian Corporations Act without share capital by letters patent dated June 13, 2000. The IIO was incorporated as a not-for-profit organization and is, therefore, exempt from income taxes.

The IIO provides client support, proposal assessment, financial services, communications, public relations assistance, administrative and related support services and expertise to the Trust, The Ontario Research and Development Challenge Fund of the Ministry of Enterprise, Innovation and Opportunity and other organizations or groups with similar objects on a not-for-profit basis.

The following are the balances of the IIO for the years ended March 31:

	2003	2002
Assets	\$ 2,409,363	\$ 2,008,462
Liabilities	1,223,753	1,323,482
Net assets	1,185,610	684,980
Revenue	6,060,012	3,382,951
Expenditures	5,559,382	2,964,553
Cash flows from operating activities	835,459	(234,675)
Cash flows from investing activities	(219,726)	(701,759)
Cash flows from financing activities	89,004	660,187

2. Summary of Significant Accounting Policies

The non-consolidated 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 non-consolidated 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.

Short-term investments

Short-term investments are recorded at cost. Investments include term deposits, money-market funds, and bankers acceptances. Market value approximates cost.

ONTARIO INNOVATION TRUST

Notes to Non-Consolidated Financial Statements
Year Ended March 31, 2003

2. Summary of Significant Accounting Policies - continued

Capital assets

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

Furniture and equipment	-	5 years
Computer equipment	-	3 years

Capital

Capital is comprised of the following components:

(a) Invested in capital assets

Invested in capital assets represents the net book value of capital assets 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.

(c) Unrestricted

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

3. Due From Innovation Institute of Ontario

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, maturing March 31, 2007.

4. Capital Assets

Capital assets consist of the following:

	2003			2002
	Cost	Accumulated Amortization	Net	Net
Leasehold improvements	\$ 8,825	8,825	\$ -	\$ 2,697
Furniture and equipment	40,081	23,861	16,220	24,236
Computer equipment	174,229	166,998	7,231	54,945
	<u>\$ 223,135</u>	<u>199,684</u>	<u>\$ 23,451</u>	<u>\$ 81,878</u>

ONTARIO INNOVATION TRUST

Notes to Non-Consolidated Financial Statements
Year Ended March 31, 2003

5. Sponsor Contribution

As part of the Ontario Government address on June 17, 2002, the Trust was awarded a sponsor contribution of \$300,000,000. An initial instalment of the contribution is expected to be received in fiscal 2004. The contribution has been recorded in the non-consolidated financial statements as a receivable.

6. Cancer Initiative Working Group

In 2002, the Board authorized an expenditure of up to \$2,000,000 towards the feasibility and action framework for a cancer research initiative in Ontario. During fiscal 2003, \$819,810 was spent towards fulfilling this mandate.

7. Structural Genomics Consortium

In 2003, the Trust incurred expenditures of \$65,252 to contribute to Ontario's share of the costs of starting up the international consortium, and to contribute to the expenses of the review panel, established by the Canadian granting agencies, to review the application for research support.

8. Salary 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:

	2003	2002
David Bogart	\$ 122,000	\$ 111,000
Christopher Pringle	101,000	-

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.

Payments in the amount of \$133,750 (2002 - \$133,750) were made on a consulting basis to Knox Innovations for the services of Kenneth W. Knox as President and CEO of the Trust.

9. Contribution to Innovation Institute of Ontario

During fiscal 2002, \$250,000 was contributed to IIO to fund the leasehold improvements at 149 College Street.