

# FINANCIAL STATEMENTS



Stem Cell Network  
Réseau de cellules souches

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## MARCH 31, 2009

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## Auditors' Report

### To the Members of Stem Cell Network

We have audited the statement of financial position of Stem Cell Network as at March 31, 2009 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Network'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 Network 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.

The financial statements as at March 31, 2007 and for the year then ended, prior to adjustment for errors as described in Note 2, were audited by other auditors who expressed an opinion without reservation on those statements in their report dated May 18, 2007. We have audited the adjustments to the 2008 opening balance sheet and in our opinion, such adjustments, in all material respects, are appropriate and have been properly applied.

A handwritten signature in black ink that reads 'McLarty &amp; Co' in a cursive, flowing script.

Ottawa  
October 14, 2009

**McLarty & Co Professional Corporation**  
(Authorized to practice public accounting by the  
Institute of Chartered Accountants of Ontario)

**Statement of Operations**

<b>For the year ended March 31,</b>	<b>2009</b>	<b>2008</b>
<b>Revenue</b>		
Networks of Centres of Excellence grant (note 9)	\$ 5,927,693	\$ 6,236,700
Other research grants (note 9)	49,100	251,955
Other contributions	93,750	84,500
Services in-kind (note 11)	64,592	53,967
Interest	4,656	14,769
	<b>6,139,791</b>	<b>6,641,891</b>
<b>Expenses</b>		
Research grants	3,884,111	4,240,103
Salaries and benefits	831,863	827,198
Conferences, seminars and meetings	516,035	459,035
International partnership initiatives	311,575	133,548
Commercialization	207,383	497,429
General and administration	108,140	105,664
Communications	89,463	131,263
CSCF-related activities (note 11)	85,765	114,202
Professional and consulting fees	54,304	100,822
Amortization of capital assets	7,274	9,310
	<b>6,095,913</b>	<b>6,618,574</b>
<b>Excess of revenue over expenses</b>	<b>\$ 43,878</b>	<b>\$ 23,317</b>

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**Statement of Changes in Net Assets**


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**For the year ended March 31,**


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	Invested in capital assets	Unrestricted	Total 2009	Total 2008
<b>Balance, beginning of year</b>				
As previously reported	\$ 14,600	\$ 274,931	<b>289,531</b>	266,214
Prior period adjustment (note 2)	-	(114,330)	<b>(114,330)</b>	(114,330)
As restated	14,600	160,601	<b>175,201</b>	151,884
Excess of revenue over expenses (expenses over revenue)	(7,274)	51,152	<b>43,878</b>	23,317
Purchase of capital assets	13,056	(13,056)	-	-
<b>Balance, end of year</b>	<b>\$ 20,382</b>	<b>\$ 198,697</b>	<b>219,079</b>	175,201

## Statement of Financial Position

March 31,	2009	2008
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 2,326,883	\$ 710,119
Restricted cash (note 6)	50,000	-
Grants receivable	124,500	3,013,475
Other receivables (note 10)	72,914	69,465
Prepaid expenses	33,279	84,643
<b>Total current assets</b>	<b>2,607,576</b>	<b>3,877,702</b>
<b>Capital assets (note 7)</b>	<b>20,382</b>	<b>14,600</b>
	<b>\$ 2,627,958</b>	<b>\$ 3,892,302</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 346,532	\$ 136,573
Research commitments payable	240,000	-
Contributions received in advance (notes 2 and 9)	1,818,516	2,872,507
Advance from University of Ottawa	-	700,000
Current portion of capital lease obligation (note 8)	3,831	3,968
<b>Total current liabilities</b>	<b>2,408,879</b>	<b>3,713,048</b>
<b>Capital lease obligation (note 8)</b>	<b>-</b>	<b>4,053</b>
<b>Total liabilities</b>	<b>2,408,879</b>	<b>3,717,101</b>
<b>Net assets</b>		
Invested in capital assets	20,382	14,600
Unrestricted (note 2)	198,697	160,601
<b>Total net assets</b>	<b>219,079</b>	<b>175,201</b>
	<b>\$ 2,627,958</b>	<b>\$ 3,892,302</b>

Approved by the board:

\_\_\_\_\_ Members

\_\_\_\_\_ Members

## Statement of Cash Flows

For the year ended March 31,	2009	2008
<b>Operating activities</b>		
Excess of revenue over expenses	\$ 43,878	\$ 23,317
Item not affecting cash		
Amortization	7,274	9,310
	51,152	32,627
Change in non-cash working capital items		
Grants receivable	2,888,975	(1,899,053)
Other receivables	(3,449)	6,574
Advances	-	175,000
Prepaid expenses	51,364	(23,858)
Accounts payable and accrued liabilities	209,959	(271,090)
Research commitments payable	240,000	(6,500)
Contributions received in advance	(1,053,991)	1,334,094
	2,384,010	(652,206)
<b>Financing activities</b>		
Advance from (repayment to) University of Ottawa	(700,000)	700,000
Repayment of capital lease obligation	(4,190)	(3,452)
	(704,190)	696,548
<b>Investing activity</b>		
Purchase of capital assets	(13,056)	(2,490)
<b>Increase in cash</b>	<b>1,666,764</b>	<b>41,852</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>710,119</b>	<b>668,267</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,376,883</b>	<b>\$ 710,119</b>
<b>Cash and cash equivalents consists of:</b>		
Cash and cash equivalents	\$ 2,326,883	\$ 710,119
Restricted cash	50,000	-
	<b>\$ 2,376,883</b>	<b>\$ 710,119</b>

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**Notes to the Financial Statements**

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**1. Nature of operations**

The Stem Cell Network (the "Network") was established in 2001 as an independent not-for-profit corporation. The mission of the Stem Cell Network is to be a catalyst for enabling translation of stem cell research into clinical applications, commercial products or public policy.

**2. Prior period adjustment**

As the SCN is nearing the end of its first cycle of NCE funding, the SCN management team decided to institute a review of its reporting to government and ensure that all financial reporting over the seven year period had been done in a consistent fashion, and that the amounts of unspent funds reported to government could be reconciled appropriately to the NCE contributions received in advance.

The review identified a number of adjustments and as a result the carryforward balance for contributions received in advance on NCE funds as at April 1, 2008 has been increased by \$114,330 and the balance of unrestricted net assets has been reduced by the same amount. The nature of the required adjustments fall into three broad categories:

Amortization of capital assets: \$24,330

For the period from fiscal year 2002 to fiscal year 2005 capital acquisitions and amortization were incorrectly dealt with in the calculation of deferred contributions, resulting in an over-recognition of grant revenue.

Conferences, seminars and meetings: \$40,000

In fiscal year 2003 and fiscal year 2004, two specific grants were received to reimburse workshop costs. The full cost of these workshops was treated as an eligible expense under the NCE grant whereas the NCE grant revenue recognized should have been net of the specific grants.

Salaries and benefits: \$50,000

In fiscal years 2006 and 2007 an ineligible salary under the NCE grant was incorrectly treated as an eligible expense under the NCE grant.

**3. Change in accounting policy**

On April 1, 2008, the Network adopted a new accounting standard issued by the Canadian Institute of Chartered Accountants (CICA), Capital disclosures (CICA Section 1535).

CICA Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. Adoption of this standard results in additional disclosure only and has no effect on the Network's financial records.

**4. Significant accounting policies**

The following is a summary of the significant accounting policies used by management in the preparation of these financial statements.

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**Notes to the Financial Statements**

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**4. Significant accounting policies (continued)****(a) Revenue recognition**

The Network follows the deferral method of accounting for contributions, which include government grants. Funds are received from the Canadian federal government as well as private and public sector partners.

Grants and other contributions which have external restrictive covenants governing the types of activities that they can be used to fund are deferred until such time as the actual spending is incurred. Consequently, unspent grants having restrictions will be recognized as revenue in future periods when the spending occurs. Grants approved, but not received at the end of the accounting period, are accrued.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

**(b) Contributions and services in-kind**

Many organizations and individuals contribute a significant amount of volunteer effort in each year. The fair value of these services is often difficult to determine. Contributed services are not recognized in the financial statements unless a fair value can be reasonably estimated, such services are used in the the normal course of operations and the provider of the services has explicitly defined the value of the services to the Network. The Network is dependent on such contributors to appropriately report the value of all contributions and services in-kind to its administrative centre.

**(c) Research grant expenses**

Research grant expenses are recorded as expenses when they become payable. Research grants that will be payable in future periods are summarized and disclosed as commitments in the notes to the financial statements.

**(d) Investments**

On January 31, 2009 the Network reacquired from the MaRS Discovery District a single special voting share in Aggregate Therapeutics Inc ("ATI"), a for-profit, pre-clinical stage biotechnology company developing therapeutic candidates originating from the laboratories of leading Canadian stem cell researchers.

The special voting share allows the Network to appoint two-thirds of the directors of ATI and to cast two-thirds of the votes at any shareholder meeting. The special voting share does not provide any rights to dividends or distributions of any kind. Under the Canadian Institute of Chartered Accountants (CICA) section 4450, ATI meets the criteria of being controlled by the Network and its' results must be reflected in the financial statements of the Network. The Network has chosen to use the equity method to account for its' investment.

During the period from January 31, 2009 to March 31, 2009, the company was inactive, and as of March 31, 2009 had no material assets or liabilities. As there was no cost to the Network for this share, it is not recorded in the accounts of the Network.

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**Notes to the Financial Statements**

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**4. Significant accounting policies (continued)****(e) Income taxes**

The Network is not subject to income taxes.

**(f) Cash and cash equivalents**

All highly liquid investments with original maturities of three months or less are classified as cash and cash equivalents. The fair value of cash equivalents approximates the amounts shown in the financial statements. Cash and cash equivalents were held with one institution.

**(g) Capital assets**

Purchased capital assets are recorded at cost. Donated capital assets are recorded on the balance sheet at their estimated fair value, and recognized in the statement of operations based on their related amortization policy.

Capital assets are amortized on a straight-line basis using the following annual rates:

Office equipment	20% Straight-line
Leasehold improvements	20% Straight-line
Computer equipment	33% Straight-line
Computer software	100% Straight-line

**(h) Financial instruments**

The carrying amount of the Network's financial instruments, consisting of cash and cash equivalents, restricted cash, grants receivable, other receivables, accounts payable and accrued liabilities, research commitments payable, contributions received in advance and capital lease obligation, approximate their fair value unless otherwise noted.

It is management's opinion that, unless otherwise noted, the Network is not exposed to significant interest rate, currency or credit risks arising from these financial instruments.

The fair value of amounts receivable from and payable to related parties has not been disclosed because it is not practicable to determine their fair value due to the absence of specific repayment arrangements.

The Network has previously adopted Section 3861 - "Financial Instruments - Disclosure and Presentation". The Network has chosen not to adopt the new sections - Section 3862 - "Financial Instruments - Disclosures" and Section 3863 - "Financial Instruments - Presentation". Not-for-profit organizations are permitted to adopt these new sections but are not required to do so.

**(i) 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.

## Notes to the Financial Statements

### 4. Significant accounting policies (continued)

### 5. Future changes to significant accounting policies

In the upcoming year, the Network will apply new recommendations of the Canadian Institute of Chartered Accountants as follows:

#### Section 4470, Disclosure of allocated expenses by not-for-profit organizations

Effective for fiscal years beginning on or after January 1, 2009. This new section establishes disclosure standards for not-for-profit organizations that choose to classify their expenses by function and allocate expenses from one function to another. The Network is currently considering the effect of the new standard on its' financial statements.

### 6. Restricted cash

Restricted cash is invested in a non-redeemable GIC and is held by the bank as collateral for the Network's Visa account.

### 7. Capital assets

	2009		
	Cost	Accumulated amortization	Net book value
Office equipment	\$ 31,177	\$ 17,978	\$ 13,199
Computer equipment	45,991	38,808	7,183
Computer software	7,468	7,468	-
	<b>\$ 84,636</b>	<b>\$ 64,254</b>	<b>\$ 20,382</b>
	2008		
	Cost	Accumulated amortization	Net book value
Office equipment	\$ 22,495	\$ 14,065	\$ 8,430
Leasehold improvements	80,116	79,000	1,116
Computer equipment	42,676	37,622	5,054
Computer software	7,468	7,468	-
	<b>\$ 152,755</b>	<b>\$ 138,155</b>	<b>\$ 14,600</b>

## Notes to the Financial Statements

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### 7. Capital assets (continued)

Included in office equipment are assets under capital lease totaling \$21,435 (2008 - \$21,435). Related accumulated amortization is \$17,505 (2008 - \$13,208) and amortization expense for the year end March 31, 2009 is \$4,287 (2008 - \$4,287).

During the year the Network office was moved by its' host institution, the University of Ottawa. As a result, the furniture and leasehold improvements at the old location which were fully amortized have been written off.

### 8. Capital lease obligation

	2009	2008
Capital lease obligation with interest rate of 5.5% per annum, maturing February 2010, requiring quarterly blended payments of \$1,077.	\$ 3,831	\$ 8,021
Less current portion	3,831	3,968
Due beyond one year	\$ -	\$ 4,053

## Notes to the Financial Statements

### 9. Contributions received in advance

	2009	2008
<b>Networks of Centres of Excellence (NCE) Funds</b>		
Balance, beginning of year as previously stated	\$ 2,628,879	\$ 1,224,579
Prior period adjustment (Note 2 )	114,330	114,330
Contributions from the Networks of Centres of Excellence	5,000,000	7,641,000
Amount received from other network	3,000	-
Less: amount recognized as Networks of Centres of Excellence grant revenue	(5,927,693)	(6,236,700)
	<b>\$ 1,818,516</b>	<b>\$ 2,743,209</b>
<b>Other funds</b>		
Balance, beginning of year	\$ 129,298	\$ 199,504
Other grants received and receivable	-	181,749
Less: amounts recognized in year	(49,100)	(251,955)
balances repayable at end of grant included in accounts payable	(86,449)	-
balances recoverable from investigator upon cancellation of grant included in other receivables	6,251	-
	<b>\$ -</b>	<b>\$ 129,298</b>
<b>Balance, end of year</b>	<b>\$ 1,818,516</b>	<b>\$ 2,872,507</b>

Other funds of \$nil (2008 - \$181,749) received and receivable in the year include monies received and receivable from the Foundation Fighting Blindness \$nil (2008 - \$49,199); the Juvenile Diabetes Research Foundation \$nil (2008 - \$110,550); and Muscular Dystrophy Canada \$nil (2008 - \$22,000).

NCE funds are managed in accordance with the funding agreement between the granting councils, the University of Ottawa and the Stem Cell Network. A copy of the funding guidelines can be found on the NCE website: [www.nce.gc.ca](http://www.nce.gc.ca).

### 10. Comparative amounts

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings, except as described in note 2.

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**Notes to the Financial Statements**

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**11. Related party transactions**

The Network is related to the University of Ottawa by virtue of the fact that the University is its' host institution under the Networks of Centres of Excellence program.

Under an agreement with the University of Ottawa ("University"), the University provides accounting and administrative support services as well as office space and furniture without charge to the Network. The value of the in-kind contributions received for services in fiscal 2009 is estimated to be \$64,592 (2008 - \$53,967). As of July 2008, The University of Ottawa and the Ottawa Hospital Research Institute (OHRI) have an agreement that the OHRI provides the Network with office space and information technology support services.

Included in other receivables is \$55,000 (2008 - \$55,000) from the University of Ottawa.

The Network is related to Aggregate Therapeutics Inc. as described in note 3(d).

During the year, as part of its mandate to catalyze new models for partnering and engage the public and philanthropic community in stem cell research, the Network supported the establishment of the Canadian Stem Cell Foundation (CSCF), a not-for-profit corporation. The CSCF has the following specific objectives:

(a) To conduct or commission research on stem cells, regenerative medicine and associated technologies, and the clinical applications thereof for the prevention, diagnosis and treatment of diseases, and to communicate the results thereof to interested individuals, groups, organizations, academics, industries, governments and the public at large.

(b) To provide educational programs to educate the public about the benefits and advances in Stem Cell Research.

The Network is related to the Canadian Stem Cell Foundation by virtue of the fact that it has seconded an executive to the Canadian Stem Cell Foundation (CSCF) to support its start-up activities at no charge to the Foundation. At March 31, 2009, a member of Network's board of directors' and an executive of Network are two of the first directors of the Foundation on a temporary basis pending appointment of a full board of directors for the Foundation as specified in its' by-laws.

During the year ending March 31, 2009, the Network expended \$13,813 (2008 - \$nil) of unrestricted funds in support of the governance and operations of the CSCF. It also incurred a further \$71,952 (2008 - \$114,202) of restricted funds in direct costs on Foundation-related activities that fall within the mandate of the Network. These expenditures are included as Canadian Stem Cell Foundation expenses on the statement of operations. Additionally, the Network provided management, staff and other in-kind support valued at \$148,500 (2008 - \$nil) to the Foundation at no charge. This amount is included in salaries and benefits, general and administration and communications on the statement of operations and is paid out of restricted funds.

## Notes to the Financial Statements

### 12. Commitments

At March 31, 2009, the Network has specifically committed to the future research grants and training programs set out below. The future commitments for the Network to be funded by the contributions received in advance are as follows:

	2010	2011	2012
Approved research grants	\$ 4,014,264	\$ 3,836,899	\$ 1,857,069
Approved training programs	109,200	-	-
	<b>\$ 4,123,464</b>	<b>\$ 3,836,899</b>	<b>\$ 1,857,069</b>

### 13. Capital management

The Network considers its capital to consist of contributions received in advance and unrestricted net assets.

	2009
Contributions received in advance	\$ 1,818,516
Unrestricted net assets	198,697
	<b>\$ 2,017,213</b>

The Network receives the majority of its funding from the Networks of Centres of Excellence (NCE). NCE funds are managed in accordance with the funding agreement between the granting councils, the University of Ottawa and the Network. The funding is restricted and is to be used as a catalyst for enabling the translation of stem cell research to clinical applications, commercial products, or public policy. A copy of the funding guidelines can be found on the NCE website: [www.nce.gc.ca](http://www.nce.gc.ca). As at March 31, 2009 management asserts that the Network is in compliance with the funding guidelines.

Unrestricted net assets are principally used to support those networking, partnering and commercialization objectives of the Network that are ineligible for reimbursement under the NCE program guidelines.