Stem Cell Network
Réseau de cellules souches

STEM CELL NETWORK FOR THE FISCAL YEAR 2008–2009

ANNUAL REPORT

The Stem Cell 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.

The Stem Cell Network is proud to be one of Canada's Network Centres of Excellence (NCE). The NCE program is administered and funded by the Natural Sciences and Engineering Research Council, the Canadian Institute of Health Research, and the Social Sciences and Humanities Research Council, in partnership with Industry Canada. The goal of the federal NCE program is to mobilize Canada's research talent in universities, industry and government to create new economy jobs, stimulate growth and improve the quality of life for Canadians.

The Network brings together 82 researchers, 51 universities and hospitals, 36 companies, 7 government departments and agencies and 49 NGOs and other organizations under four strategic research programs:

- Cellular Therapeutics
- Pharmacological Applications
- Technology Development
- Public Policy and Ethical, Legal & Social Issues

The Network has been approved for $6.4 million in funding per year for the years ending March 2009 to March 2012. It is hosted by the University of Ottawa at:

501 Smyth Road, Room CCW–6189
Ottawa, Ontario K1H 8L6 Canada

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DIRECTORS' MESSAGE

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Message from the SCN's Board Chair, Scientific Director and Executive Director

In challenging economic times, we look to continued investment and progress in research for innovations and developments that help drive future prosperity. In this respect, Canada and the Stem Cell Network did not disappoint. While investment from private and industry sources slowed, stem cell research and innovation continues to accelerate.

The past year saw important and field-changing developments, such as the discovery of a viral-free method of inducing pluripotent stem cells from the skin (iPS) by the Dr. Andras Nagy lab, Dr. Mick Bhatia's method for early identification of cancer stem cells and Dr. Connie Eaves' breakthrough in isolating mammary stem cells. Network investigator Tim Caulfield took on the challenge presented by rogue stem cell clinics offering unsubstantiated "cures" for a myriad of diseases by assessing false website claims and drawing attention to the potential risks of stem cell tourism.

Following its renewal in 2007, the Network launched a core research competition and announced funding of 12 projects in October of 2008. These projects, in areas such as multiple sclerosis, pulmonary arterial hypertension, diabetes, spinal cord injury and hemophilia will continue to advance the Network's strategic plan to bridge the gap between the lab and the clinic. By 2015, these projects should result in at least 12 clinical trials, as well as new patents to attract increased industry partnership.

A new research program was introduced in early 2009 to further accelerate clinical translation. The new Impact Grant program aims to foster greater collaboration among researchers and between research and industry partners by requiring partnership with health charities, NGOs or industry. This builds on the success of the Catalyst Grant program, which funded 16 short-term projects between 2005 and 2009 and attracted nine commercial partners with cash and in-kind contributions of more than $500,000. These are programs that have been emulated by other funding agencies within Canada and abroad and that continue to help Canadian stem cell researchers leverage funding and remain among the top echelon in their field.

The stories within this year's annual report reflect both the scientific excellence and the overall progression of the stem cell field. As technologies continue to be developed and refined, the Stem Cell Network is anticipating and meeting the challenges presented in social and ethical, business and clinical settings.

Indeed, the past year has been one in which the Network has made significant commercial inroads, both nationally and internationally. More than 20 new partners joined in SCN projects in 2009. In addition, the International Consortium of Stem Cell Networks, a SCN-led initiative, has started to have major impacts in coordinating international research projects and combating the serious issue of medical tourism.

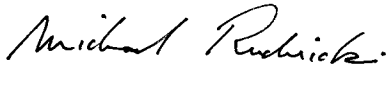
On the international front, the federal government made it a priority to support stem cell partnerships and international investment. In collaboration with the Stem Cell Network, Canada and Stem Cell Network investigators were placed at the forefront of stem cell meetings with researchers in China and with venture capitalists in the United States. Both sets of meetings were positively received and show strong indication of future research collaborations and industry investment.

Early in 2008, the Stem Cell Network Board began long-term strategic planning to ensure the continuation of funding for stem cell research in Canada. From this, the Canadian Stem Cell Foundation was born. The Foundation will be an independent, charitable organization, with a mission to support research into stem cells, and their translation into clinical applications, as well as to educate students and the public about the science and advances in the field. With a number of initiatives in the planning stages, the Foundation will be ready to publicly launch in fall of 2009.

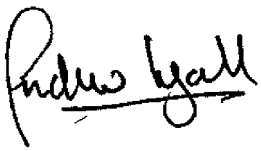
Lastly, a note from Drew and Michael: we'd like to thank outgoing Board Chair, Frank Gleeson, and welcome a new Chair, Verna Skanes. As one of the Network's founding Directors and Board Chair since 2006, Frank has seen a great deal of change and progress in the Network. Through this time he has provided invaluable guidance and support, particularly in the successful strategic repositioning of the Network during the renewal process in 2007. We wish him every success as he steps down to pursue a new business venture, Verio Therapeutics Inc.

Verna has been a member of the Stem Cell Network Board since 2005, and is also Chair of the Canadian Blood Services Board. She previously held the position of Assistant Dean for Research and Graduate Studies in the Faculty of Medicine at Memorial University, and remains associated with them as Adjunct Professor of Medicine since her retirement in 1999. She currently serves on the Advisory Board of the Institute for Circulatory and Respiratory Health, and the Selection Committee of the Networks of Centres of Excellence Program. We look forward to having her aboard as we continue to catalyze new opportunities for the translation of Canadian scientific excellence into commercial, policy and therapeutic benefits.

Frank Gleeson
Chair of the Board of Directors



Michael Rudnicki
CEO and Scientific Director



Drew Lyall
Executive Director

A GAME-CHANGING DEVELOPMENT

Stem Cell Network
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The ability to create induced pluripotent cells from skin cells is revolutionizing stem cell science. But does it also change the rules?

When Dr. Shinya Yamanaka proved that adult skin cells can be programmed to return to an embryonic-like state, he didn't just add a new element to the field of stem cell science – he changed the course of regenerative medicine.

"This is a game-changer," says Prof. Timothy Caulfield, Research Director of the Health Law Institute at the University of Alberta. "Obviously, there are still a lot of scientific hurdles to clear, but it is a big game-changer."

The Japanese researcher's late-2007 breakthrough in creating human induced pluripotent stem (iPS) cells means that a readily available, non-controversial source for life's building-blocks can be tapped for drug screening (testing chemical compounds for their effects on cells), establishing disease models (creating models of the disease in a Petri dish to see how they might be treated) and – eventually – repairing or regrowing human organs and tissue.

While the use of human embryonic stem cells has sparked considerable controversy – until recently, the creation of new cell lines was not supported by the federal government in the United States and it is a banned activity in a variety of countries, including Germany and Italy – does the arrival of this new way of producing pluripotent cells mean the controversy will disappear?

AT A GLANCE

Who – Prof. Timothy Caulfield, Research Director of the Health Law Institute at the University of Alberta and member of SCN's Research Management Committee

What – What are the ethical/legal/social issues involved with the emergence of skin-cell derived induced pluripotent (iPS) cells?

Recent Activity – Prof. Caulfield led an international workshop in Barcelona in July to gather the opinions of the world's thought leaders on the subject with the goal of coming up with recommendations.

Quote – "We're at a very interesting time. We have all these regulatory frameworks that were created as a result of the profound controversies associated with embryonic stem cell research. And now we have iPS cells and the potential of using these cells in a variety of contexts. We want to explore all those issues and we're lucky because we have the experience from the intense controversy concerning embryonic stem cells."

Not likely, says Prof. Caulfield, who is also a member of the Stem Cell Network's Research Management Committee. The revolutionary new protocol, which has since been significantly refined and improved by SCN researcher Dr. Andras Nagy in a study published in *Nature* in March 2009, brings with it a whole new set of ethical questions, says Prof. Caulfield.

"A lot of people felt, 'OK, we're done. There are no more issues.' But because you are creating pluripotent cells, there are many issues involved. For example, does this mean, now that you have iPS cells, that you make gametes (human sperm and eggs)? There are a whole bunch of reasons why you might want to create gametes from iPS cells. If you do that, it will be sure to trigger some regulatory frameworks around the world."

SCN has long been a world leader in examining the ethical, legal and social issues involved in stem cell science and regenerative medicine. The Network's Dr. Bartha Knoppers of McGill University currently leads the Ethics Working Party of the International Stem Cell Forum. And now, with the scientific world's attention shifted to iPS cells, SCN is again leading the discussion on the ethical implications involved.

In July, Prof. Caulfield conducted an SCN-sponsored workshop on the issues involved in the creation and use of iPS cells. It was held in Barcelona, in advance of the International Society for Stem Cell Research annual meeting.

"There are many things to consider," says Prof. Caulfield. "What are the rules about putting these cells into a human being? Is this a biologic (therapy)? Will U.S. Food and Drug Administration approval be need every time you want to put this new biologic into someone?"

Then there are interesting issues concerning commercialization of iPS cells.

"To what extent," asks Prof. Caulfield, "does existing intellectual property cover this, in terms of patents? These are things that are going to have relevance in the near future."

Indeed, the future has already begun: Dr. Bill Stanford, Co-Scientific Director of the Ontario

Human iPS Cell Facility in Toronto, leads a team of Canadian scientists who have partnered with Dr. Yamanaka's laboratory at the University of Kyoto to collaborate on using iPS cells to develop potential therapies and treatments for currently incurable diseases.

"The door to the imagination has been flung wide open," says Dr. Stanford, Associate Director of the University of Toronto's Institute for Biomaterials and Biomedical Engineering.

Dr. Stanford has already used Dr. Yamanaka's breakthrough to engineer pluripotent cells from patients with Hutchinson-Gilford Progeria Syndrome, a genetic condition that causes rapidly accelerated aging in children. He and his and colleagues are searching for the diseased cells' key biochemical characteristics – called the phenotype – so they can screen for compounds or drugs that could block the disease. Their findings could provide important insights into stroke, heart attack and cardiovascular disease.

That such exciting new research is being conducted and new findings about iPS protocols are being published in quick succession speaks well for the state of stem cell science, says Prof. Caulfield.

"Dr. Nagy's work got a lot of attention, but it's incredible what's happened since then. There seems to be a big paper published every two weeks. It's amazing how fast this field is moving. It's playing out exactly how you would like to see science play out: you have the big advance and then other great minds weigh in and refine, and then refine further. It is really exciting."

SURVIVING DEATH VALLEY

Stem Cell Network
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Early support from SCN helped an award-winning medical researcher successfully navigate the tricky terrain where so many great ideas can die.

Today's research innovation often has a way of becoming yesterday's news. What looked so promising in the "Eureka!" phase can slowly fizzle when there is insufficient funding or industry interest to take a laboratory breakthrough from its conceptual stage to commercial viability.

Dr. Samuel Weiss, the University of Calgary researcher who discovered that the adult brain contains stem cells capable of providing an infinite supply of new neurons, knows this all too well.

"People call it the Death Valley of science," says Dr. Weiss, Director of the Hotchkiss Brain Institute and winner of the 2008 Gairdner International Award for outstanding medical research. "It's where good ideas can just dry up."

Dr. Weiss has been fortunate in not having to walk through Death Valley alone.

"The Stem Cell Network has been very supportive," says Dr. Weiss, whose original stem cell discoveries have led to the development of a promising stroke therapy now in Phase II clinical trials.

"In the early days with the stroke work, partnering with SCN and the Canadian Stroke Network allowed us to demonstrate the proof of principle for mobilizing stem cells to treat animal models. They were extremely supportive in helping us fill that gap between discovery and proof of principle. No one wants to support the in-between stuff, but they did a great job."

The stroke therapy, called REGENESIS, uses NTx™-265, a regimen of two drugs – human Chorionic Gonadotropin (hCG) and Erythropoietin (EPO) – to stimulate neural cell growth and replace brain cells destroyed by oxygen deprivation. Stem Cell Therapeutics Corporation (SCT), a Calgary-based company that Dr. Weiss helped found five years ago, is conducting the clinical trials.

Meanwhile, separate clinical trials will soon begin to test the effectiveness of prolactin – a hormone that triggers lactation in pregnant women – in combating Multiple Sclerosis (MS). With that debilitating disease, the nervous system's cell-to-cell communication is disrupted when an insulator called myelin is stripped from cellular fibres.

"We drew the parallels between the reasonably well-known remission of MS during pregnancy and the fact that prolactin levels go up then," says Dr. Weiss. "We tested it in animals and were able to show that prolactin could also increase myelination."

As with the development of REGENESIS, SCN was there to help during the early days of the prolactin research – and beyond.

"SCN support in the prolactin project helped develop the proof-of-principle studies and even supported some of the early stage clinical efforts. I'm really grateful for the belief in the concept."

Dr. Weiss was an early adopter of what he calls he calls "intrinsic" or endogenous (from within the tissue or organ) cellular repair in which the existing stem cells are stimulated to begin proliferation and differentiation to replace or repair damaged cells. This approach varies from the notion of transplanting or injecting stem cells at the damaged site to affect repair – a strategy that may not always be workable when dealing with the human brain.

"The neat thing about the endogenous approach is that it actually occurs already, and to some extent spontaneously. So what we're doing is trying to work with nature rather than trying to superimpose something from the outside in. That's not to suggest superimposing doesn't work, but it may be more challenging."

He says SCN was quick to respond to encourage research in this new way of manipulating stem cells. "It was a different model for how cell therapy might be applied. But I had great support, great scientific advice, great peer review and of course, financial contributions in trying to move the scientific translation forward."

ON THE RECORD: WHAT'S BEEN SAID ABOUT SAM WEISS

"The true spirit of science is to embrace the unknown, and to have the wisdom to recognize when you've hit on something that could turn out to be big. Sam has that spirit."

– *Dr. Tom Feasby, Dean, University of Calgary Faculty of Medicine.*

"Sam made a landmark discovery when he identified neural stem cells in adult tissue, transforming the field of neurobiology and paving the way for regenerative medicine in the nervous system."

– *Dr. John Dirks, President and Scientific Director, the Gairdner Foundation*

"Dr. Weiss has a passion and dedication for his work that will undoubtedly lead to further discovery and solutions."

– *Dr. Harvey Weingarten, President, University of Calgary*

GOING WHERE THE RESEARCH LEADS

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While investigating how to develop stem cells to repair broken hearts, SCN's Dr. Duncan Stewart found a different path that could lead to even better results.

Dr. Duncan Stewart is living proof that an open mind can be a scientific investigator's best piece of equipment.

A Stem Cell Network Principal Investigator, Dr. Stewart's pioneering work in cardiopulmonary repair illustrates how the key to success often lies in being prepared to go where the research leads instead of forcing it down a path paved with preconceived notions.

"When cell therapy for heart disease first began, we all thought we would develop stem cells which would then produce heart muscle," says Dr. Stewart, an internationally renowned cardiologist and the CEO/Scientific Director of the Ottawa Hospital Research Institute.

"That still may be something important in the future. But what we've learned is that even cells that don't produce heart muscle can still influence the healing and repair process in ways which are very important and profound – and could have a huge impact on the ultimate function and structure of the heart."

Dr. Stewart has been working for almost a decade on a gene-enhanced cell-based therapy to reverse the effects of Pulmonary Arterial Hypertension (PAH), a currently incurable disease that puts

AT A GLANCE

Who – Dr. Duncan Stewart, CEO, Scientific Director and Senior Scientist in the Regenerative Medicine Program, Ottawa Hospital Research Institute and Vice-President, Research at the Ottawa Hospital.

What – He has developed a therapy using gene-enhanced cells derived from a patient's own blood to treat Pulmonary Arterial Hypertension (PAH). The treatment could be adapted to prevent scar tissue from forming after a heart attack, reducing the risk of heart failure.

Recent Activity – Early phase clinical trials of the cell replacement therapy for PAH are underway, with a larger study set for next year.

Quote – "Our preclinical work has shown us that there is a potential great benefit to enhancing the effect of the progenitor cells. We're moving that concept into cardiac therapy. It's looking like a very promising area."

acute stress on the heart by narrowing the vessels that carry blood to the lungs.

The treatment that he and long-time scientific collaborator Dr. David Courtman have developed involves taking cells from a patient's blood, culturing them to isolate the progenitor cells that can repair the inside lining of blood vessels and loading them with a therapeutic gene. The cells are then returned to the patient to repair the pulmonary blood vessels.

Working closely with Dr. Michael Kutryk of St. Michael's Hospital in Toronto and Dr. Lawrence Rosenberg of Montreal's Jewish General Hospital, Drs. Stewart and Courtman are conducting early phase clinical trials on 18 PAH patients to establish the optimum number of cells to administer. A 40-to-50 patient North American trial, supported by the U.S. pharmaceutical company United Therapeutics, is in the works for 2010.

Drs. Stewart and Courtman, who have co-founded a biotech firm of their own called Northern Therapeutics Inc., expect to have another clinical trial up and running next year: a 100-patient examination of the effectiveness of using a similar gene-enhanced cell therapy to improve the healing of the heart's left ventricle after heart attack. Scar tissue often forms there after an attack, leaving the muscle weakened and the patient vulnerable to heart failure.

Dr. Stewart credits SCN with helping to remove obstacles that might have blocked taking the ideas that he and Dr. Courtman developed from concept stage to clinical trials.

"We have had tremendous help from SCN in dealing with our development and manufacturing issues. They have also helped develop the protocol we needed to be able to do this work in the context of clinical trials – in the sense of having effective and compatible good manufacturing practices (GMP). That was tremendously helpful, as was the support and collaboration we got through SCN with experts who could help us."

The connection with the Jewish General Hospital has proven particularly beneficial in accessing a state-of-the-art, sterile lab – one of only two such cell handling facilities in Canada.

Dr. Galipeau, who led the lab until September 2009, explained the collaborative philosophy to McGill University's *headway* magazine: "The strength behind the Network lies in the fact that it is trying to move away from the paradigm of the solitary monk toiling away in his cell, towards a more multidisciplinary team approach to solving problems."

For his part, Dr. Stewart has paid close attention to interesting research avenues to pursue.

"These progenitor cells seem to have very intriguing interactions with the immune system, shifting the way the body responds to injury in a beneficial way. None of this would have been anticipated unless we got into preclinical and clinical trials and showed that it's working – but working in a way we didn't originally anticipate."

Ultimately what matters, says Dr. Stewart, is the end result.

"To the patients, it really doesn't matter why they are better – whether the cells that they received produced new heart muscle or whether the cells promoted better healing, reduced the scar and allowed other repair mechanisms to happen. As long as they're better, they're better."

THE FUTURE IS WIDE OPEN

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Things look exceptionally promising for stem cell science, says one of the few Canadians who sees it from both the business and biology angles.

When Dr. Allen Eaves, President of Vancouver-based STEMCELL Technologies Inc., looks into the future of stem cell science, he sees very good things.

"This is a wonderful time," says Dr. Eaves, one of Canada's most respected researchers in the field of chronic myelogenous leukemia who, almost three decades ago, helped found the now-world-renowned Terry Fox Laboratory for cancer biology.

"We are on the verge of huge new developments. The payoffs are not going to be immediate; we are slowly accelerating and there is a lot of work involved. But it will totally change the way people live and think about life."

Dr. Eaves' assessment carries considerable weight because he represents a rare hybrid: a bioscientist who is as pragmatic as he is visionary. Some 25 years ago, when he had trouble securing a supply of a hormone needed for cancer investigations at his Terry Fox Lab, he decided to manufacture it himself. Then sell it to other researchers. Then manufacture and sell other research-ready materials.

While the business operation helped buy equipment and fund young scientists, it soon grew too big for the Terry Fox Lab. So, in 1993,

AT A GLANCE

Who – Dr. Allen Eaves, President of Vancouver-based STEMCELL Technologies Inc. and Senior Scientist at the Terry Fox Laboratory, BC Cancer Research Agency.

What – His company manufactures the "picks and shovels of the stem cell gold rush" and helps advance research into regenerative medicine around the world.

Recent Activity – Competes with multi-billion-dollar U.S. enterprises. Recently launched AggreWell™, a tool to ensure vitally important consistency in embryoid bodies used to induce cell differentiation, developed by SCN investigators Dr. Peter Zandstra and Dr. Mark Ungrin. Quote – "What our investment in the Stem Cell Network has done is let Canadian scientists know that we are very interested in their work. The result is that people are supportive of what we're trying to do. We have a good relationship with members of the Network."

Dr. Eaves mortgaged his house and started STEMCELL, a thriving company that, as he puts it, "supplies the picks and shovels for the stem cell gold rush" to scientists around the world.

While he remains a senior scientist at Terry Fox, Dr. Eaves divides his time between fending off buyout offers from billion-dollar competitors in the United States ("I'm a Canadian nationalist") and keeping STEMCELL on the leading edge of stem cell science by paying very close attention to who's doing what in the field.

"We work with leaders in the field. We read their papers and understand what they're doing so that we can produce products that are useful to them. It's all about having high-quality products and getting them out there relatively quickly."

The close relationship that Dr. Eaves and STEMCELL have forged with the Stem Cell Network has helped in this regard. His company has contributed "at least $2 million" to the Network in the past few years and runs an annual "boot camp" to teach young researchers how to organize and operate their labs. Meanwhile, SCN investigators have been a wellspring for some of his company's most innovative and in-demand wares.

"One of our new products, AggreWell™ (a device that ensures consistency in embryoid bodies used to induce cell differentiation) was developed by Dr. Peter Zandstra and Dr. Mark Ungrin in Toronto. It's going great guns for us. That's typical of our close interactions with people in academia."

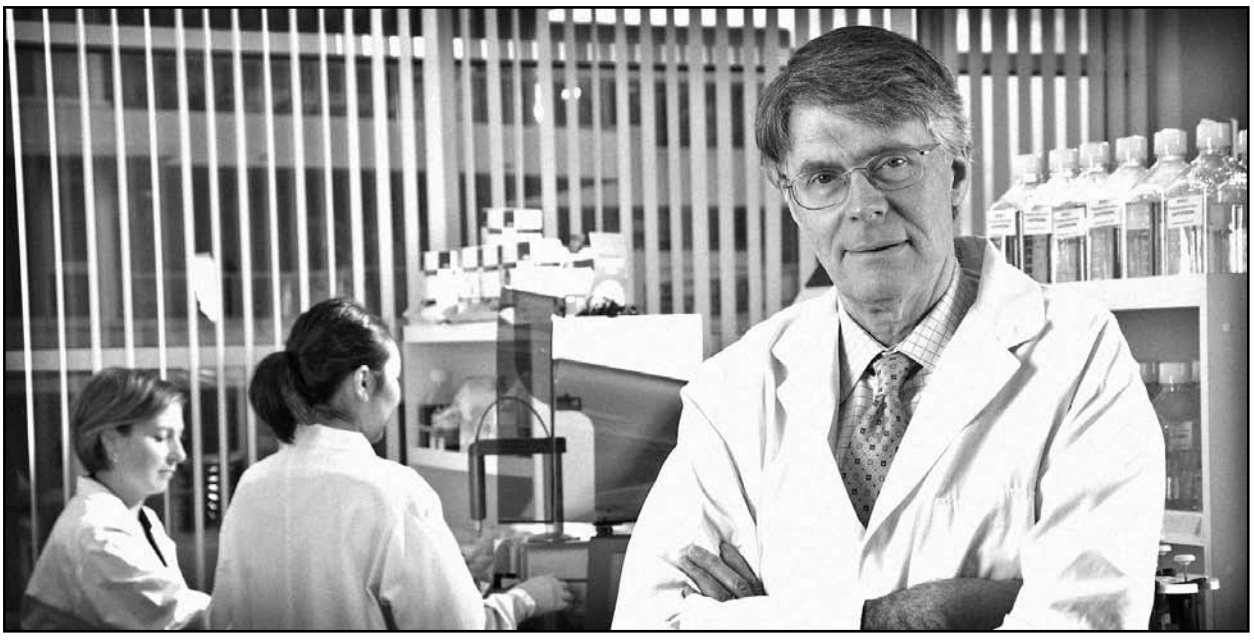
Dr. Eaves says that for STEMCELL to compete with multi-billion-dollar U.S. enterprises, product quality is paramount.

"Our products are better. We do quality control very carefully. All of the materials that go into our products are carefully selected and formulated. Everything is tested and retested. We set very high standards for all our finished products."

But where does he see stem cell science going?

"Stem cell research is going to morph into tissue engineering and regenerative medicine. That's going to lead us into whole new areas. Can we use stem cells to grow tissues we need? Can we, for example, develop the scaffolding that we need to allow us to make artificial kidneys? Think of what that would do. There are thousands of people waiting for kidney transplants in Canada."

The future for STEMCELL looks just as promising.



While the recent recession has slowed most companies down, STEMCELL continues to grow, albeit not quite at the 20 per cent a year pace it was once setting, but close. The Obama administration's decision to lift the ban on embryonic stem cells will kickstart the science in the United States but, more than that, the Japanese discovery that induced pluripotent stem (iPS) cells can be created from adult skin stem cells has thrown the field wide open.

"The iPS discovery is huge. Almost anything you can conceive of is probably possible. Imagine that we can take an individual's cells and basically make stem cells. Retool them. Do genetic engineering on them. And then put them back into the patient with no rejection. That's what iPS can allow you to do."

While there are still many unknowns, Dr Eaves remains confident that medical breakthroughs will come.

"I think that's all going to get straightened around so that we can use iPS cells to patch hips or knees. And I'm in need of that, so it can't come too soon."

STEMCELL Technologies by the numbers

- Employs more than 260 people.
- Sells products in 70 countries.
- Its employees have paid more than $30 million in income tax over the years.
- Has brought in more than $200 million in business to Canada.
- Has sales of $40 million annually.
- 90% of its products are exported.
- Has grown at a rate of 20% a year and is still growing despite downturn in economy.

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* Since January 2009
** Until December 2008

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Jason Moffat
Cindi Morshead
William Stanford
Vince Tropepe
Rachel Tyndale
Derek van der Kooy
Peter Zandstra

University of Waterloo

Eric Jervis

Collaborating Institutions

Canada

Dalhousie University
McGill University
McMaster University
Memorial University of Newfoundland
Queen's University
Simon Fraser University
Université de Montréal
Université Laval
University of Alberta
University of British Columbia
University of Calgary
University of Ottawa
University of Saskatchewan
University of Toronto
University of Waterloo
University of Western Ontario

Australia

Swinburne University

France

Université de Poitiers

Sweden

Linköping University

United Kingdom

Durham University
Imperial College of London
Lancaster University
University College London
University of Cambridge
University of Edinburgh
University of Manchester
University of Oxford
University of Sheffield

United States

American University
Case Western Reserve University
Cornell University
Georgetown University
Harvard University
Northwestern University
Salk Institute
Stanford University
University of California, San Francisco
University of Michigan
University of Pittsburgh
University of Washington
University of Wisconsin

Industry

AccelLab
Aegera Therapeutics Inc.
Aggregate Therapeeutics Inc.
Astellas
Avigen
Baxter Biosciences
Bayer HealthCare
BD BioSciences
Beckman Coulter
Betalogics
Cascade Therapeutics
Cellular Bioengineering
CSL Behring
Cormex Research
Deloitte Touche
Dryas Consulting
Evasight Instruments
Hindle & Associates
Insception Biosciences
Invitrogen
Kinexum
Merck
Millipore
Novartis Canada
Northern Therapeutics Inc.
Octapharma Canada
Organogenesis
Perkin Elmer
Pfizer Canada
Protox Therapeutics
Roche Canada
Sigma Aldrich
STEMCELL Technologies Inc.
Stem Cell Therapeutics
Syntonix
Vistagen

Government Departments and Agencies

Federal

Canada Foundation for Innovation
Department of Foreign Affairs & Intl. Trade
Genome Canada
National Research Council of Canada

Provincial

Alberta Innovation
Ontario Ministry of Research & Innovation
Ontario Institute for Cancer Research

Health Institutes, NGOs and Others

Australian Stem Cell Centre
Biotechnology & Biological Sciences Research Council (UK)
Bereshith
British Columbia Cancer Agency
California Institute of Regenerative Medicine
Canadian Breast Cancer Foundation
Canadian Science Writers Association
Canadian Stroke Network
Cancer Care Ontario
Centre de recherche en droit public
East of England Stem Cell Network
Foundation Fighting Blindness (Canada)
Genetics Policy Institute
Heart and Stroke Foundation of Canada
Institut de recherches cliniques de Montréal
International Consortium of Stem Cell Networks
International Rett Syndrome Research Foundation
International Society of Stem Cell Research
International Stem Cell Network of Asia Pacific
Jesse's Journey
Jewish General Hospital (Montreal)
Juvenile Diabetes Research Foundation
Krembil Fund
Lawson Health Research Institute
Lilah's Fund
Lincy Foundation
Lions Eye Bank
London Regenerative Medicine Network
MaRS
McLauchlin Centre for Molecular Medicine
Mount Sinai Hospital
Muscular Dystrophy Canada
National Institutes of Health
Neuroscience Canada
New South Wales Stem Cell Network
New York Stem Cell Foundation
North East England Stem Cell Network
Norwegian Stem Cell Network
Ottawa Hospital Research Institute
Preasd Eye Institute
Rick Hansen Foundation
Riken Centre for Developmental Biology
Samuel Lunenfeld Research Institute
Scottish Stem Cell Network
Sir Mortimer B. Davis Jewish General Hospital
Solving Kids Cancer
Stem Cell Network of North Rheine Westphalia
Stem Cell Research Forum of India
St. Michael's Hospital
Spanish Stem Cell Bank
Structural Genomics Consortium
Sunnybrook and Women's College Health Sciences Centre
Swartout Centre Fund
The Hospital for Sick Children
The James Birrel Fund for Neuroblastoma Research
Toronto General and Western Hospital Foundation
University Health Network
UK National Stem Cell Network
Vancouver General Hospital

FINANCIAL STATEMENTS

Stem Cell Network
Réseau de cellules souches

MARCH 31, 2009

McLarty & Co
Professional Corporation
Chartered Accountants/
comptables agréés

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495 Richmond Road
Ottawa, Ontario
Canada K2A 4B2

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Fax: 613-726-9009
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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.

Ottawa
October 14, 2009

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

Statement of Operations

For the year ended March 31,	2009	2008
Revenue		
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
	6,139,791	6,641,891
Expenses		
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
	6,095,913	6,618,574
Excess of revenue over expenses	**$ 43,878**	$ 23,317

Statement of Changes in Net Assets

For the year ended March 31,

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

See accompanying notes to the financial statements

Statement of Financial Position

March 31,	**2009**	2008
Assets		
Current		
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
Total current assets	**2,607,576**	3,877,702
Capital assets (note 7)	**20,382**	14,600
	$ 2,627,958	$ 3,892,302
Liabilities		
Current		
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
Total current liabilities	**2,408,879**	3,713,048
Capital lease obligation (note 8)	**-**	4,053
Total liabilities	**2,408,879**	3,717,101
Net assets		
Invested in capital assets	**20,382**	14,600
Unrestricted (note 2)	**198,697**	160,601
Total net assets	**219,079**	175,201
	$ 2,627,958	$ 3,892,302

Approved by the board:

_____ Members

_____ Members

See accompanying notes to the financial statements

Statement of Cash Flows

For the year ended March 31,	2009	2008
Operating activities		
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)
Financing activities		
Advance from (repayment to) University of Ottawa	**(700,000)**	700,000
Repayment of capital lease obligation	**(4,190)**	(3,452)
	(704,190)	696,548
Investing activity		
Purchase of capital assets	**(13,056)**	(2,490)
Increase in cash	**1,666,764**	41,852
Cash and cash equivalents, beginning of year	**710,119**	668,267
Cash and cash equivalents, end of year	**$ 2,376,883**	$ 710,119
Cash and cash equivalents consists of:		
Cash and cash equivalents	**$ 2,326,883**	$ 710,119
Restricted cash	**50,000**	-
	$ 2,376,883	$ 710,119

See accompanying notes to the financial statements

Notes to the Financial Statements

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.

Notes to the Financial Statements

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.

Notes to the Financial Statements

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**	**-**
	$ 84,636	**$ 64,254**	**$ 20,382**

			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	-
	$ 152,755	$ 138,155	$ 14,600

Notes to the Financial Statements

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
Networks of Centres of Excellence (NCE) Funds				
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)
	$	**1,818,516**	$	2,743,209
Other funds				
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**		-
	$	**-**	$	129,298
Balance, end of year	**$**	**1,818,516**	$	2,872,507

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.

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.

Notes to the Financial Statements

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**	-	-
	$ 4,123,464	$ 3,836,899	$ 1,857,069

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**
	$ 2,017,213

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. 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.