GenomePrairie

MOVING TOWARDS **A NEW VISION**

2006 ANNUAL REPORT

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Message from the Chair

2005-2006 was a momentous year for Genome Prairie. The results of the first Genome Prairie projects funded under Genome Canada's Competition I and II included significant breakthroughs in agriculture and health research that contributed to the development of the prairie region as an internationally recognized centre for genomics research. The quality and creativity of genomics research in the region was also reflected in our success in attracting funding for exciting projects through Competition III.

Dr. Arnold Naimark
Chair of the Board

The past year was also significant because of the restructuring of Genome Prairie as a bi-provincial entity focusing on developments in genomics in Manitoba and Saskatchewan and on collaborations with other genome centres in Canada (including the newly formed Genome Alberta) and abroad. The restructuring involved relocating the corporate office to Saskatoon from Calgary, opening a Genome Prairie office in Winnipeg, hiring a new leadership team, restructuring the Board of Directors and its committees, and ensuring the ongoing smooth functioning of research projects under the respective purviews of the new Genome Prairie and the new Genome Alberta during the transition period.

On behalf of the Board of Directors, I wish to thank all of those involved in the complex restructuring process and give special thanks to our CEO, Jerome Konecsni, and his colleagues in administration. We are particularly grateful to the governments of Manitoba and Saskatchewan for their support, both moral and material, of the vision and mission of the new Genome Prairie, to the many stakeholders in the industry, and to the prairie community which has been supportive and with whom we hope to ensure that the benefits of applications of genomics discoveries in agriculture and health are fully realized in the region and beyond.

On my own behalf, I thank the Directors of Genome Prairie for their sound oversight of the affairs of the centre. We look forward to seizing the opportunities and meeting the challenges that lie ahead, and to working with our partners in government, industry, and academia and other stakeholder groups to continue to build a strong foundation that will sustain genomics research and its applications in the prairie region long into the future.

Sincerely

Dr. Arnold Naimark
Chair of the Board

President's Report

This has been a year of successful conclusions and new beginnings.

With the opening of new corporate headquarters in Saskatchewan and new staff, we saw an opportunity to explore areas where Genome Prairie could make a significant contribution and impact the daily lives of people on the prairies through genomics research.

In this transitional year, we gained approval for new Genome Canada projects for this region, projects that will have significant benefits for Canada.

One of our projects is widely believed to be the most significant step in disease research since the Human Genome Project. Scientists knock out, or eliminate, different genes in mice, thereby developing a model to demonstrate how genes are involved in hereditary disease.

An agricultural project aims to develop and breed frost resistant lines of wheat.

Genome Prairie also supports two other projects. One looks at infection responses and the other looks at using genomics to diversify canola. We are convinced these projects will bring revolutionary results for agriculture and healthcare across Canada.

With our collaborators, we aim to make Saskatchewan and Manitoba recognized worldwide as leaders in genomics research and its application to agriculture and human health. In many ways, our provinces have natural advantages. Saskatoon is the site of a pre-eminent agricultural biotechnology cluster and is home to the Canadian Light Source Synchrotron, federal research institutions, and private companies in Innovation Place. Manitoba has a worldwide reputation for its successes in infectious disease, disease model development, and nutritional sciences and functional foods.

Although Saskatchewan and Manitoba have several recognized strengths in research and development, maintaining and increasing these will be crucial to sustaining a position of leadership. It will also be necessary to ensure research successes are translated into economic and social benefits for this region.

For Genome Prairie, this year has been an opportunity to meet and work with fantastic collaborators and to delve into new areas of health and agricultural research. In 2006-07, we look forward to realizing new scientific success stories and creating success for our region.

Jerome Konecsni
President and CEO

Mr. Jerome Konecsni
President and CEO

Chief Scientific Officer's Report

This past year has been a year of tremendous progress and transition.

Dr. Gijs van Rooijen

Chief Scientific Officer

Competition I and Competition II projects concluded their Genome Canada funded activities, and the fruits of these investments are only now starting to appear in the form of scientific publications, invention disclosures, patents, etc. While these projects were wrapped-up, Genome Canada released the results of its latest competition, Competition III, and approved funding for several projects in the Prairies. From these very competitive Genome Canada awards, it is clear that the genomics community on the Prairies is very strong. Moreover, there is recognition from provincial governments that these investments will lead to innovation and socio-economic benefits for their citizens and therefore they have all committed very strong co-funding support for these research programs.

Based on extensive feedback from various stakeholders, a decision was made during this year that Genome Prairie and the genomics community would benefit from the evolution of Genome Prairie into two entities – a revised Genome Prairie that will be responsible for activities that are led or co-led out of Saskatchewan and Manitoba and a new Genome Alberta that will be responsible for the management and coordination of selected genomics research activities that are led or co-led out of Alberta. In response, Genome Prairie has relocated its head office to Saskatoon and is establishing a satellite office in Winnipeg. These changes were enthusiastically supported by the research community as they will allow the respective Genome Centres to better meet the needs of the scientists in their regions and better align themselves with provincial research priorities.

The revised Genome Prairie will lead two Genome Canada projects valued at $27.9 M. Genome Canada will provide funding for up to $9.3 M of this budget. These projects are:

1. Use of Genomics Tools for Crop Improvement in Temperate Climates, and

2. North American Conditional Mouse Mutagenesis Project: High Throughput Mammalian Functional Analysis for the Discovery of Novel Determinants of Human Disease.

In addition, Genome Prairie will support two Genome Canada projects, led by Genome BC and Genome Alberta, that have extensive research activity in the Prairies. These projects are valued at $25.0 M. Genome Canada will provide funding for up to $9.8 M. These projects are:

3. Pathogenomics of Innate Immunity, and

4. Designing Oilseeds for Tomorrow's Markets.

The transition into two new entities means that this will be my last Chief Scientific Officer's report for Genome Prairie as I have decided to remain in Calgary and join Genome Alberta. In my new role, I am looking forward to continuing to work with Genome Prairie and advance the very exciting field of genomics on the Prairies.

Gijs van Rooijen
Chief Scientific Officer

Director of Communications' Report

Genomics research has a reach well beyond the lab and will affect the daily lives of Canadian citizens. Genome Prairie provides a leadership role by providing credible, balanced information about genomics to our various stakeholders.

As a result, we are forming links with commodity groups such as the Flax Council to ensure the benefits of genomics research are realized right along the value chain. We also host events to promote dialogue and debate over the ethical, social, and legal implications of genomics research. For example, we showed the award-winning film "The Score" at the Regina IMAX Theatre and hosted a subsequent panel discussion that allowed citizens, including patient groups, to discuss the ethical implications of genetic testing.

The government and the public have an interest in genomics research and its outcomes. As a result, Genome Prairie wants to remain transparent and demonstrate return on the public's investment. Communicating our results with the provincial government and the media in a timely fashion ensures that we are meeting our accountabilities.

Ensuring we have the skills necessary for human resource development in Canada is critical, so we provide students with information about potential careers in genomics. To inspire these future scientists, we have developed brochures describing the career paths of leading prairie genomics researchers, and established a "Debunking DNA" program at the Saskatchewan Science Centre, to further build awareness and interest in genomics. Genome Prairie also provides genomics awards at regional science fairs to encourage students to pursue this field.

The existing scientific community in Canada—the people who make the research happen—is also very important to us. Genome Prairie strives to facilitate linkages between scientists by supporting conferences and events that bring together scientists from different disciplines and different regions to exchange ideas.

We are looking forward to working with our various stakeholders on interesting and diverse projects in the year ahead.

Lisa Jategaonkar
Director of Communications

Lisa Jategaonkar
Director of Communications

The genomics era explores new frontiers of knowledge and will transform our views on healthcare, agriculture and the environment.

Looking Ahead – A New Vision

To the casual observer, the prairies may appear vast and uneventful. Upon closer examination, the undulating landscape reveals an amazing symbiosis of plants and animals. Exploring the relationships between these living beings is much like looking into an organism's tiniest particles. We see a whole new world of possibilities.

Genomics is the threshold to yet unimagined potential for healthcare, agriculture, and the environment. Genome Prairie, in partnership with Genome Canada, is leading researchers into this new frontier of scientific research.

Saskatchewan and Manitoba are fostering world-calibre genomics research that is vitally important to all Canadians and indeed the world. Genome Prairie is supporting this development, while ensuring the results especially benefit the people of our region.

By working to develop networks with provincial governments, researchers, and industry stakeholders, we are helping to identify regional priorities and increase research capacity in genomics on the prairies.

The expected results: new stress-tolerant crop varieties, higher yields, and new treatments for infectious and hereditary diseases.

Research leading to these major breakthroughs in the study of plants, animals, and humans will ultimately save billions of dollars and countless lives.

Although Saskatchewan and Manitoba are already recognized for their research and development strengths in the areas of infectious diseases, plant genomics, disease model development, and nutrigenomics, building on these strengths will be crucial to sustaining a position of leadership.

Translating research results into socio-economic benefits for this region and for Canada involves making the most of the intellectual property developed from our research projects, working with key stakeholders in the value chain, and communicating these results to the public.

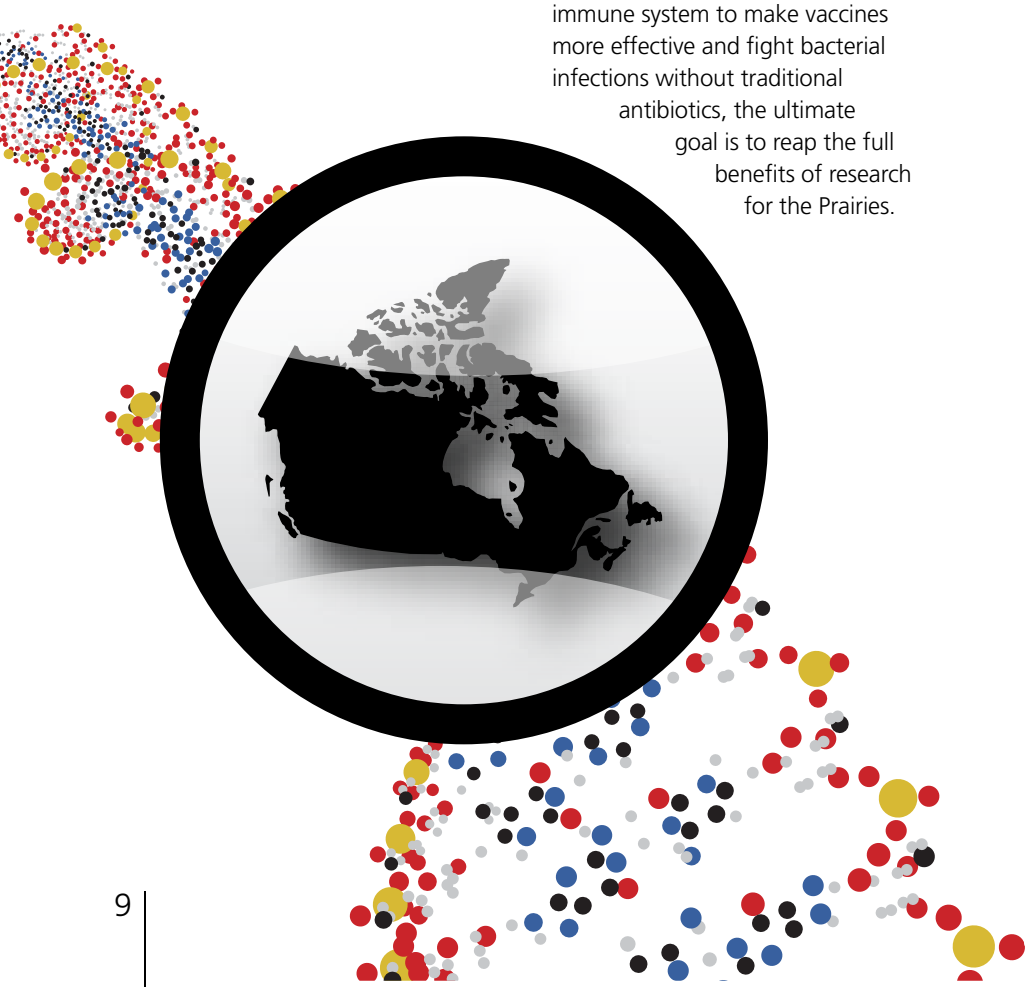
GE^{3}LS is an acronym for the Ethical, Economic, Environmental, Legal and Social implications of genomics research. Genome Prairie supports GE^{3}LS research and promotes dialog among stakeholders regarding these issues.

Research

Genome Prairie fosters groundbreaking research and promotes its applications in agriculture and health. We are building enhanced, sustainable research capacities on the prairies, raising public awareness of genomics, and providing a forum to discuss the social, legal, and ethical issues surrounding genomics.

In the past, our support for the development of innovative research tools has accelerated the progression from research concept to commercial product. Helping researchers understand rejection mechanisms has given transplant patients a greater chance of survival. Identification of the genes that cause cold and drought resistance will result in improved crops.

New projects launched in 2005 continue to push the boundaries of our understanding and will lead to major breakthroughs in the study of plants, animals, and humans. From learning how to trigger frost tolerance in wheat, to uncovering the role of genetic changes in the development of diseases such as cancer, to developing a healthier canola with improved yield, composition, and quality, to discovering how to use our built-in immune system to make vaccines more effective and fight bacterial infections without traditional antibiotics, the ultimate goal is to reap the full benefits of research for the Prairies.



Frost-Tolerant Wheat

In Canada's tough climate our agricultural crops need to be tough, too. As a result, researchers are learning how to isolate the genetic factors that trigger low-temperature adaptation in plants – such as winter wheat – so that these factors can be bred into crops such as spring wheat and barley.

While conventional plant breeders have made significant advances in the development of cold-hardy cereal crops, their efforts have been stalled by recessive genetics. Rye, for example, is one of the most cold-tolerant cereal crops, but when it is crossed with wheat, the offspring is no longer cold hardy.

Genomics research helps isolate the specific genes that influence cold-hardiness and allows researchers to study their response mechanisms. Once the pathway through which a gene confers temperature tolerance is understood, plant breeders breed the trait into a new variety.

GE³LS Research

Increased adoption of fall-sown crops could contribute to more environmentally-sustainable production systems but may have significant impacts on land use in agriculturally-marginal lands. GE³LS research will evaluate the environmental impacts of increased usage of low temperature crops and impact on land use.

Use of Genomic Tools for Crop Improvement in Temperate Climates

Project Leader:

Dr. Brian Fowler,
University of Saskatchewan

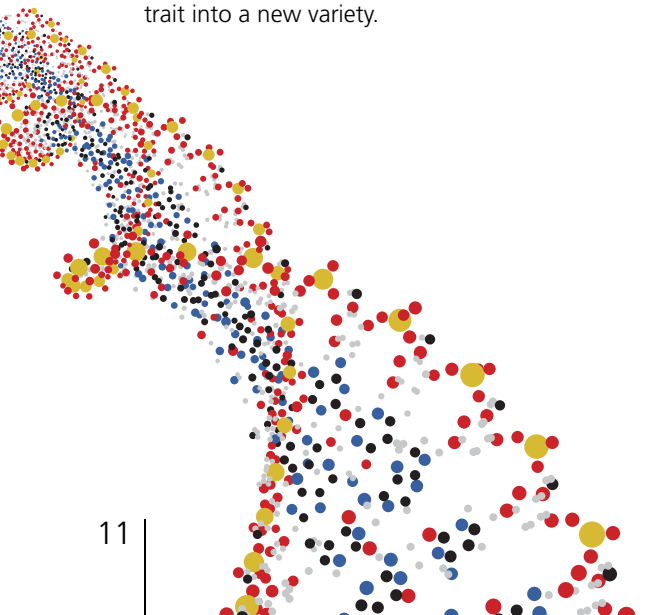
Project Value:

$6.0 M

Genome Canada Contribution:

$3.0 M

Led by: Genome Prairie



Mouse Model for Cancer Research

North American Conditional Mouse Mutagenesis Project

Project Leaders:

Dr. Geoff Hicks,
Manitoba Institute of Cell Biology

Dr. Janet Rossant,
Hospital for Sick Children

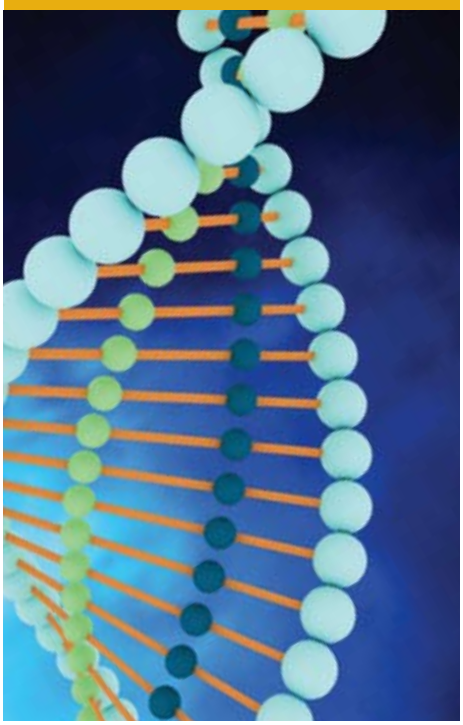
Project Value:

$21.9 M

Genome Canada Contribution:

$6.3 M

Led by: Genome Prairie



To uncover the role of genetic changes in the development of hereditary diseases such as cancer, a research team has devised an efficient means of "knocking out" or removing selected genes in mice. Known as gene trapping, this is accomplished by creating mouse embryonic stem cells in which a single gene has been replaced with a null allele—a non-functioning placeholder. As the resulting mice grow to adulthood, researchers can study the effects of the missing gene.

The process, which used to take up to two years of specialized work to isolate just one gene, has been streamlined to produce up to 1,000 isolations in one month. Some genes are more easily trapped than others, but as the more accessible genes are trapped, new methods are being devised to single out more difficult ones.

The research team is now working on producing "knock-out" mice for each of the 23,000 genes in the mouse genome. The result will be a library of mouse embryonic stem cells containing genetic "knock-outs" from which researchers can request the appropriate mouse stem cells for their particular investigations. It will be an invaluable genetic resource used by researchers around the world for an unlimited number of applications.

The next step will be to knock out the gene specifically responsible for the tissue affected by a disease. For example, if researchers were studying liver diseases, the genetic mutation would be limited to liver tissue.

GE³LS Research

A GE³LS research team is currently exploring public-private sector partnerships and the implications of developing public "knock-out" mice repositories.

Designer Oils

The development of canola as a nutritionally-superior vegetable oil is a genetic research success story. Canola currently accounts for 70% of vegetable oil products in Canada, but genomics researchers believe they can make it even better.

Researchers have begun to identify the next level of genetic information—expressed sequence tags. These small gene components help to develop a snapshot of genetic activity at various stages of plant development—for example when making seed.

Equipped with this understanding of canola genetics, researchers can create oil seeds with improved yield, composition, and quality. By shifting the plant's energies away from manufacturing undesirable products such as thick seed coats and anti-nutritionals (compounds that make the seed unpalatable or difficult to digest), higher levels of oil, specialty oils, and improved protein can be produced.

Some scientists believe that canola meal has a better balance of protein for human nutrition than soybeans and could even be used for human food.

Improved economic viability also offers potential for the development of environmentally friendly industrial products including lubricants, nylon, biodegradable plastics, and other polymers.

GE³LS Research

The development of new canola varieties with new product traits will challenge the regulatory and industrial systems in assessing and adopting these new crops. GE³LS research will examine these challenges and opportunities.

Designing Oilseeds for Tomorrow's Markets

Project Leaders:

Dr. Randall Weselake,
University of Alberta

Dr. Wilf Keller,
Plant Biotechnology Institute

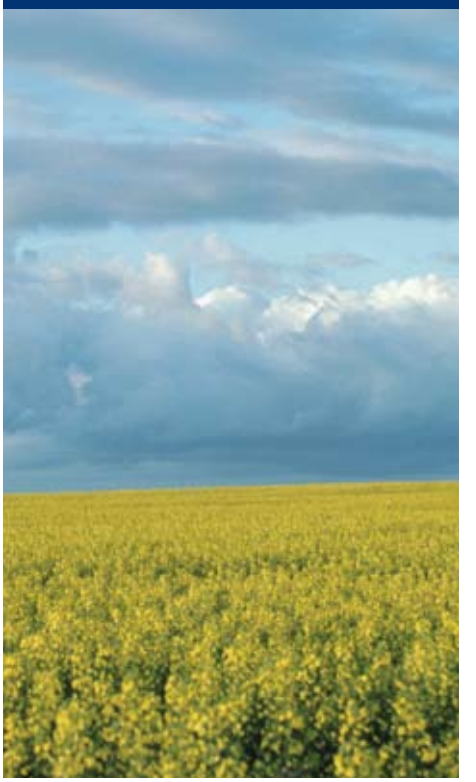
Project Value:

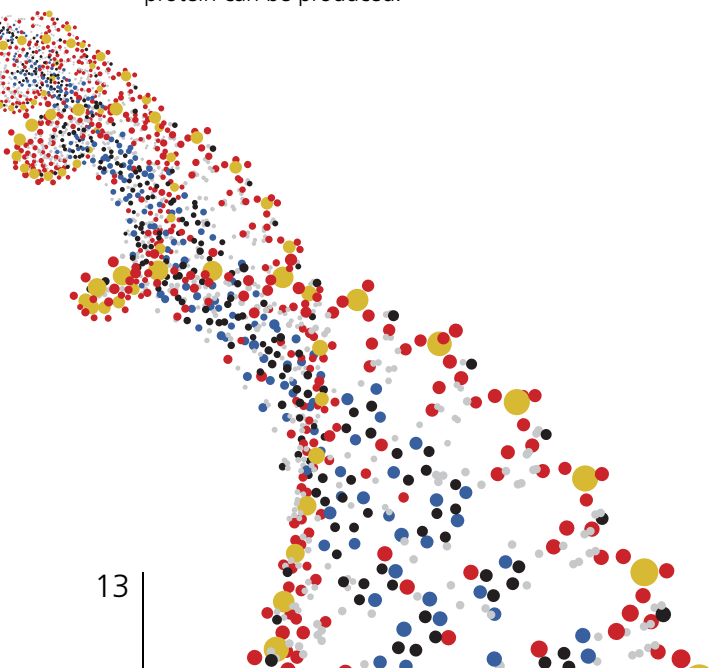
$12.2 M

Genome Canada Contribution:

$5.3 M

Led by: Genome Alberta
Supported by: Genome Prairie





Waging War on Infectious Diseases

Every day we are exposed to tens of thousands of potentially disease-causing microbes in the air we breathe, the food and water we consume, and the people and animals we meet. Yet, most of us stay relatively healthy.

The Pathogenomics of Innate Immunity

Project Leaders:

Dr. Robert Hancock,
University of British Columbia

Dr. Lorne Babiuk,
Vaccine and Infectious Disease Organization

Project Value:

$12.8 M

Genome Canada Contribution:

$4.5 M

Led by: Genome British Columbia
Supported by: Genome Prairie

By learning how our innate immunity—the built-in ability to fight disease—works, genomics researchers hope to figure out how to make vaccines more effective and fight bacterial infections without traditional antibiotics.

Innate immunity triggers a series of reactions that fight disease, but, if the system is over-stimulated, it can cause excessive inflammation, potentially leading to tissue damage and life-threatening syndromes. Researchers are looking for a way to enable the pathways that trigger innate immune responses, but turn off the inflammation side effects.

By using bioinformatics—advanced computer technology used in biology research—scientists are able to map the complex series of reactions triggered by viruses or bacteria.

Diseases like Salmonella can infect food animals and then be passed to humans. By infecting mice that have had certain immune response genes inactivated, researchers can study how the innate immune response is affected.

GE³LS Research

This project provides an opportunity to investigate the interplay of science and technology, commercialization, and public interest, in understanding the forces that shape discovery and development in large-scale genome research projects.

Highlights

Several Genome Prairie projects were concluded this year. Here are some project highlights and successes.

- **Functional Genomics of Abiotic Stress**
  An investigation of the genetic mechanisms of how plants protect themselves against abiotic stresses—cold, heat, and drought - led to several developments that mitigate against crop losses. A key receptor involved in a wide range of abiotic stresses was discovered. This critical discovery eluded researchers for over 50 years, and will undoubtedly be the basis for further developments of hardier crops. Scientists produced plant lines that protect themselves against flooding and crop lines that demonstrated increased yields.

- **GE³LS (Genomics, Ethics, Environment, Economics, Law & Society)**
  Through an examination of key issues in the arenas of intellectual property management, commercialization issues, and public views on emerging technologies, the GE³LS team has contributed to policy development and led the world in balancing the benefits and issues around genomics technologies.

- **Functional Pathogenomics of Mucosal Immunity**
  Using genomic approaches to study the interactions between microbial pathogens and their host, researchers explored the biological significance of altering the innate immunity genes that play a role in host defense. They conducted the first major comparative genomics of immunity in humans and livestock, developing a compendium of genes involved in innate immunity. Three novel open-source programs developed to analyze microarray information in this project will continue to benefit other Canadian scientists in the future.

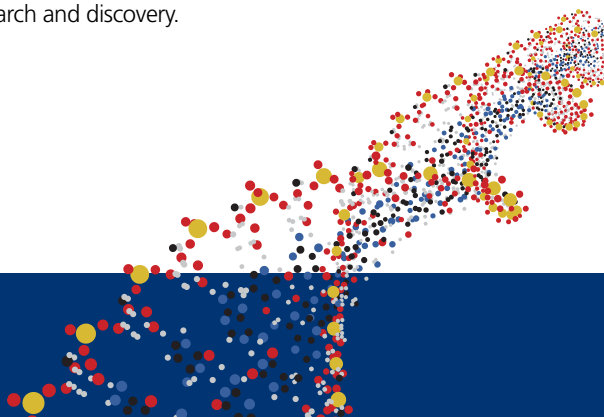
- **Enhancing Canola Through Genomics**
  Scientists demonstrated canola prototypes with enhanced vigor, increased levels of oil and reduced antinutritionals in the meal. Their work will also benefit future scientific studies and accelerate future developments in canola enhancement since more than 250,000 ESTs at different plant development stages will be made available to scientists through GenBank. Additionally, a seed-derived microarray with approximately 10,000 unique genes has been developed and is being made available to Canadian researchers.

- **Transplant Transcriptome Project**
  Microarray or "gene chip" technology can be used to more quickly determine when organ rejection occurs after transplant to give patients a greater chance of survival. This technology will also aid in the improved understanding of rejection mechanisms, and could therefore lead to the development of novel diagnostic products and drug treatments.

- **Human Metabolome Project**
  While the genome is the set of all genes in an organism, the metabolome is the set of all metabolites in an organism. This project developed a publicly-accessible human metabolite database and is recognized as an international leader in the emerging field of metabolomics.

- **Integrated and Distributed Bioinformatics Platform**
  In its fourth successful year, the Genome Canada Bioinformatics Platform provided computational infrastructure, custom programming, tool development and bioinformatics training for genomics scientists.

- **Enabling Technologies**
  By supporting the development of innovative new proteomics methodologies, and analytical instrumentation, the Enabling Technologies project has accelerated the progress of research and discovery.



Strategic Partners

Science knows no borders. We need partners from around the world to embark on projects having a worldwide impact. Other partners help bring project results to market and confer advantages to Canada. Genome Prairie would like to acknowledge our current and future partners.

CANADIAN

- Ag-West Bio
- Agriculture and Agri-Food Canada
- Alberta Agricultural Research Institute
- Alberta Ingenuity Centre for Machine Learning
- British Columbia Cancer Agency
- Canadian Foundation for Innovation
- Ducks Unlimited
- Flax Council of Canada
- Hospital for Sick Children
- Inimex Pharmaceutical Inc.
- Manitoba Institute of Cell Biology
- MDS Sciex
- Mount Sinai Hospital
- National Research Council Plant Biotechnology Institute
- Province of Alberta
- Province of Manitoba
- Province of Quebec
- Province of Saskatchewan
- Saskatchewan Health Research Foundation
- Simon Fraser University
- St. Boniface Hospital
- The Wellcome Trust Sanger Institute
- University of Alberta
- University of British Columbia
- University of Calgary
- University of Saskatchewan
- University of Toronto
- Vaccine and Infectious Disease Organizations

GENOME CENTRES

- Genome Alberta
- Genome Atlantic
- Genome British Columbia
- Genome Canada
- Genome Quebec
- Ontario Genomics Institute

INTERNATIONAL

- Cold Spring Harbor
- Institut fur Entwicklungs-genetik, GSF
- Irish Department of Agriculture and Food
- Merial Limited
- RIKEN Genomic Sciences Centre
- Sun Microsystems
- University of California Davis
- University of Giessen

Board of Directors & Personnel

The 2005/2006 change in headquarters brought new staff and Board of Directors.

Staff:

Jerome Konecsni, President and CEO

Chris Barker, Project Manager, Use of Genomic Tools for Crop Improvement in Temperate Climates

Lisa Jategaonkar, Director of Communications

Syl Lepage, Finance Manager

Dr. Reno Pontarollo, Project Manager, North American Conditional Mouse Mutagenesis Project

Shelby Sluth, Administrative Assistant

Dr. Gijs van Rooijen, Chief Scientific Officer

Cindy Yungwirth, Office Manager

Board of Directors:

Dr. Gerry Brown
(Saskatchewan Research Council)

Dr. Pete Desai
(Desai & Desai Inc.)

Dr. Albert Friesen
(Medicure Inc.)

Dr. David Gauthier
(NRC IRAP)

Dr. Martin Godbout
(Genome Canada)

Dr. Arnold Naimark
(Centre for the Advancement of Medicine, University of Manitoba)

Dr. Gordon Neish
(Agriculture and Agri-Food Canada)

Dr. Ashley O'Sullivan
(Ag-West Bio Inc.)

Dr. Ian Smith
(NRC Institute for Biodiagnostics)

Acknowledgements

The current staff and Board of Directors would like to acknowledge with thanks all former staff and Board of Directors who have contributed to the success of Genome Prairie this past year.

Staff

Dr. Randal N. Johnston, President and CEO

Donna Coad, Director of Corporate Communications / Manager of Operations

Betty Eggertson, Administrative Assistant

Jean-François Forget, Consultant Accountant

Dr. Elizabeth Nanak, Project Manager, Functional Genomics of Abiotic Stress

Jennifer Medlock, Project Manager, Genomics: Ethics, Environment, Economics, Law and Society (GE^3LS)

Marianne Hang, Platform Manager, Genome Canada Bioinformatics Platform

Chris Dambrowitz, Project Manager, Enabling Technologies

Dr. Faouzi Bekkaoui, Project Manager, Enhancing Canola Through Genomics

Dr. Paul Hodgson and Bernadette Mah, Project Managers, Functional Pathogenomics of Mucosal Immunity

Lori Querengesser, Project Manager, Human Metabolome Project

Dr. Lisette Mascarenhas, Project Manager, The Transplant Transcriptome Project

Board of Directors:

Dr. Peta Bonham-Smith
(Department of Biology, University of Saskatchewan)

Dr. Ronald Dyck
(Alberta Government)

Dr. Marianna Foldvari
(College of Pharmacy and Nutrition, University of Saskatchewan)

Hugh MacNaught
(Innocentre Alberta)

Financial Statements of Genome Prairie
Year ended March 31, 2006

AUDITORS' REPORT TO THE DIRECTORS

We have audited the statement of financial position of Genome Prairie as at March 31, 2006 and the statements of earnings and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Corporation'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 Corporation as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures were reported on by another firm of chartered accountants.

Chartered Accountants
Saskatoon, Canada
June 12, 2006

KPMG LLP Chartered Accountants
Telephone: (306) 934-6200
Fax: (306) 934-6233
600 - 128 4th Avenue South
Saskatoon, SK S7K 1M8
Internet: www.kpmg.ca

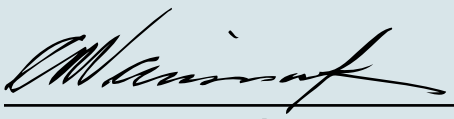
Statement of Financial Position

March 31, 2006, with comparative figures for 2005

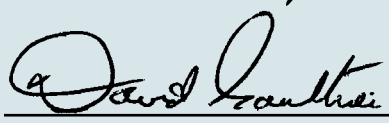
	2006	2005
Assets		
Current assets:		
Cash	$ 2,063,551	$ 1,803,078
Receivables	82,292	–
GST receivable	70,843	23,755
Funding receivable	–	380,241
Project advances	305,863	1,902,203
Prepaid expenses	6,100	25,066
	2,528,649	4,134,343
Equipment and leasehold improvements (note 3)	17,743	37,566
	$ 2,546,392	**$ 4,171,909**
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 227,108	$ 229,415
Deferred contributions:		
Expenses of future periods (note 4)	2,121,194	3,776,951
Equipment and leasehold improvements	17,743	37,566
	2,366,045	4,043,932
Net Assets		
Unrestricted	180,347	127,977
	$ 2,546,392	**$ 4,171,909**

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

Statement of Earnings and Changes in Net Assets

Year ended March 31, 2006, with comparative figures for 2005

	2006	2005
Revenue:		
Amortization of deferred contributions (note 4)	$ 29,111,298	$ 33,831,431
Amortization of deferred contributions related to equipment and leasehold improvements	8,120	16,552
Interest	112,719	49,547
	29,232,137	**33,897,530**
Expenses:		
Research project expenditures	28,137,091	32,774,970
General and administrative	1,050,529	1,024,873
Research project development	16,319	54,355
Amortization	8,120	16,552
	29,212,059	**33,870,750**
Excess of revenue over expenses	20,078	26,780
Gain on sale of equipment	32,292	–
Net earnings	52,370	26,780
Net assets, beginning of year	127,977	101,197
Net assets, end of year	**$ 180,347**	**$ 127,977**

See accompanying notes to financial statements.

Statement of Cash Flows

Year ended March 31, 2006, with comparative figures for 2005

	2006	2005
Cash flows from (used in):		
Operations:		
Net earnings	$ 52,370	$ 26,780
Items not involving cash:		
Amortization of deferred contributions	(29,119,418)	(33,847,983)
In-kind contributions received	7,263,685	2,858,368
Amortization	8,120	16,552
Gain on sale of equipment	(32,292)	–
Contributions in the year, net of in-kind contributions	20,361,107	31,022,604
Transfer of ASRA funds to Genome Alberta	(152,292)	–
Changes in non-cash operating working capital:		
Receivables	(82,292)	–
GST receivable	(47,088)	22,023
Funding receivable	380,241	(330,591)
Project advances	1,596,340	462,821
Prepaid expenses	18,966	(10,569)
Accounts payable and accrued liabilities	(2,307)	69,683
	245,140	**289,688**
Investing:		
Purchase of equipment and leasehold improvements	(16,959)	(26,957)
Proceeds on disposal of equipment	32,292	–
	15,333	(26,957)
Increase in cash	260,473	262,731
Cash, beginning of year	1,803,078	1,540,347
Cash, end of year	**$ 2,063,551**	**$ 1,803,078**

See accompanying notes to financial statements.

1.Operations

Genome Prairie (the "Corporation") was incorporated in 2000 under the Canada Corporations Act as a not-for-profit organization. The Corporation funds organizations and institutions that conduct genomic research and development for the economic benefit of the Prairie Region (Alberta, Saskatchewan and Manitoba) and Canada.

2.Significant accounting policies:

(a) 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 date of the financial statements and the reported amount of revenue and expenses during the reporting period. Actual results could differ from these estimates.

(b) Revenue recognition:
The Corporation follows the deferral method of accounting for contributions which includes funding from Genome Canada, Provincial Ministries, the Commercial sector and other funding sources. 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.

Externally restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Certain contributions include amounts paid directly by the funding sources to the institutions completing the research. The Corporation includes these direct payments as contributions in its financial statements. Restricted contributions applied toward the purchase of equipment and leasehold improvements are deferred and amortized to revenue on a straight-line basis, at a rate corresponding with the amortization rate for the related equipment and leasehold improvements.

Contributions received in kind are recorded at their fair value.

(c) Equipment and leasehold improvements:
Equipment and leasehold improvements are recorded at cost. Amortization is provided for on a basis to amortize the cost of the assets over their estimated useful lives as follows:

Asset	Method	Rate
Furniture and equipment	Straight-line	5 years
Computer equipment	Straight-line	3 years
Computer software	Straight-line	3 years
Leasehold improvements	Straight-line	5 years

3. Equipment and leasehold improvements:

	Cost	Accumulated amortization	2006 Net book value	2005 Net book value
Furniture and equipment	$ 14,424	$ 10,122	$ 4,302	$ 14,262
Computer equipment	10,942	7,686	3,256	19,268
Computer software	3,997	758	3,239	4,036
Leasehold improvements	7,312	366	6,946	–
	$ 36,675	**$ 18,932**	**$ 17,743**	**$ 37,566**

4. Expenses of future periods:

Deferred contributions represent unspent externally restricted amounts for the purpose of providing funding to approved projects and for Corporate operating expenses in future periods.

	2006	2005
Opening deferred contributions for expenses of future periods	$ 3,776,951	$ 3,754,367
Contributions for the year:		
Genome Canada	15,953,761	12,684,954
MDS Sciex	5,482,557	7,581,095
Canadian Foundation for Innovation	877,783	1,186,629
Inimex Pharmaceutical Inc.	725,158	1,677,173
University of Calgary	673,814	-
University of Alberta	671,515	249,636
Plant Biotechnology Institute	652,981	1,896,044
Sun Microsystems	462,143	38,167
Quebec Government	440,778	596,704
Alberta Agricultural Research Institute	322,126	452,425
Agriculture and Agri-Food Canada	264,397	1,204,455
Irish Department of Agriculture and Food	251,195	-
Agricultural Development Fund	227,545	106,638
Saskatchewan Government	202,214	97,405
Genome BC	163,763	-
Alberta Ingenuity Centre for Machine Learning	106,781	-
University of Toronto	55,622	-
Merial Limited	(214,073)	624,000
Western Economic Development	-	824,133
Alberta Science, Research and Technology Authority	-	1,903,771
Capital Health	-	775,000
Varian Incorporated NMR Systems	-	319,453
IBM Canada Limited	-	203,574
Manitoba Government	-	189,528
Paracel	-	182,522
Others	304,732	1,087,666
	27,624,792	33,880,972

4.(cont)

	2006	2005
TOTALS FROM PREVIOUS PAGE	27,624,792	33,880,972
Total contributions	31,401,743	37,635,339
Less amounts recognized as revenue	(29,111,298)	(33,831,431)
Transfer to deferred contribution - equipment and leasehold improvements	(16,959)	(26,957)
Transfer of ASRA funds to Genome Alberta	(152,292)	–
Closing deferred contributions for expenses of future periods	**$ 2,121,194**	**$ 3,776,951**

Contributions received of $9,150,737 were paid directly by the funding sources to the research institutions. Contributions of $7,263,685 represent the estimated fair value of in-kind contributions and is included in the contributions for the year.

Deferred contributions have been externally restricted for the following purposes:

	2006	2005
Project expenses	$ 2,108,685	$ 3,776,951
Associated development costs	12,509	–
	$ 2,121,194	**$ 3,776,951**

5.Project commitments:

In accordance with an agreement signed with Genome Canada effective April 1, 2005, with regard to a financial commitment of $22,850,522 from Genome Canada for the period from April 1, 2005 to March 31, 2008, Genome Prairie has agreed, among other things, to obtain equivalent funding support from other parties. As specified in the agreement, Genome Canada may provide transition funding to Genome Prairie notwithstanding the fact that formal commitments from other parties have not yet been secured. In such cases, funds provided in advance "in good faith" as part of the transition budget shall not be reimbursable in the event such commitments from other parties have not been secured. Genome Canada may then terminate the agreement or funding for a particular component.

6.Financial assets and liabilities:

The fair value of cash, receivables, GST receivable, project advances and accounts payable and accrued liabilities approximate fair value due to the short period to maturity of these items.

Genome Prairie is the lead organization for genomics research on the prairies. We work in partnership with Genome Canada, a not-for-profit organization which is implementing a national strategy in genomics and proteomics research to benefit all Canadians.

For more information,
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GenomePrairie

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