



SUSTAINABLE DEVELOPMENT
TECHNOLOGY CANADA™



Partnering for real results.

2002 Annual Report



Sustainable Development Technology Canada (SDTC) is a funding organization aimed at increasing access to market and the rate of market entry for the commercialization of innovative technological solutions which address climate change and air quality. We strive to ensure rapid diffusion of these new sustainable development technologies in all sectors throughout Canada.

The Foundation is an initiative of the Government of Canada, and operates as an arm's-length, not-for-profit Corporation. SDTC was established in 2001 with an initial \$100 M investment from the Government of Canada.

SDTC's head office is in Ottawa. Further information on SDTC can be obtained from SDTC's website at www.sdtc.ca.

Our Mission

Sustainable Development Technology Canada's mission is to act as the primary catalyst in building a sustainable development technology infrastructure in Canada.

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Who Benefits?

Innovators / entrepreneurs / small and medium size enterprises

- Funding without equity dilution or repayment requirements.
- SDTC invests mainly at the critical pre-commercial demonstration stage.
- SDTC provides support and mentoring not just dollars.
- SDTC strengthens the innovation chain and helps create partnerships.
- SDTC funding will attract follow-on support for the commercialization phase.

Financial community

- Qualified deal flow – SDTC due diligence and approval process lowers investment risk.
- New source of matching funds lowers development and market entry risks.
- National reach – enables selection of the best projects from across Canada at minimum cost.
- Funds into the pre-venture capital (VC) gap at the expensive demonstration phase.
- No equity dilution with SDTC funding.
- Wide market application in vital sectors of the Canadian economy e.g. oil and gas, power generation and forestry.
- Expands pool of investment capital and players.

Research and academic communities

- Funding for research at pre-commercialization stage
- Encourages inclusion of academia in “go to market” partnerships.
- Funding into pre-VC gap strengthens the innovation chain.
- No dilution of innovators' interests.
- Increases access to potential partners for technology development.

Non-governmental organizations (NGOs)

- Commitment to the principle of sustainable development in a tangible way.
- Encourages participation of NGOs in applicant consortia.
- Validation of SD technologies as they become commercial.
- Increases the number of companies seeking to work with NGOs.

Parliamentarians and their constituents

- Unique organization and operating model leverages taxpayer's contribution.
- Efficient way to reduce Greenhouse Gas (GHG) emissions.
- Helps to meet Kyoto commitments while contributing to economic growth.
- Provides viable solutions to climate change and clean air issues.
- Increases Canadian competitiveness in emerging global markets for SD technologies.
- Reverses the brain drain, keeps scientists and their innovative projects in Canada.
- Provides measurable, results oriented means of strengthening technological innovation.
- Increases Canada's capacity to reduce emissions, improve productivity and assist with emissions trading.



innovation.

Message from the Chairman



Our country has a long and proud tradition of coming together to respond to challenges that affect our nation's economic security, health or quality of life. One of the most serious challenges we face is addressing global climate change as we work to sustain a growing global economy.

The creation of Sustainable Development Technology Canada (SDTC) by the Government of Canada is recognition of the importance the Government places on finding and funding a meaningful response to the challenge of sustainable development and of mobilizing people with different experiences and expertise to meet that challenge.

That is why I am proud to be one of the Founding Directors of SDTC, which brings together the ingenuity and experience of all sectors of our society – private, public, academia, and non-governmental organizations – to address this issue in a constructive way. We recognize that the risks and complexities of climate change are so important that we must work together to meet this challenge.

The Board of Directors and the Member Council have agreed to commit their time, energy, expertise, and experience to the success of SDTC and to the clean technology entrepreneurs which it supports.

Based on my experience in Canada's energy sector, I have come to the conclusion that sustainable development is complementary to achieving economic prosperity. Minimizing greenhouse gas and air pollution impacts improves the quality of our lives and offers new business opportunities for Canadians.

SDTC's business model – which focuses on partnerships between these various sectors – is unique and truly value-added in terms of its return on investment potential. Further, its private sector orientation is fully aligned with the principle that the response to the challenges impacting our quality of life and prosperity as a country must be cost effective, global, equitable, and foster economic growth.

Fostering the rapid development, demonstration and commercialization of technological solutions which address climate change and air quality is a worthy and important mandate that holds great promise now and for future generations.

It is also increasingly obvious that innovations that become commercial businesses are real contributors to economic growth and future prosperity. When we create new sustainable development technologies, we have Canada – and the rest of the world – as our new markets. Focusing on environmental and sustainable development technology will become a source of increased economic efficiency and ultimately more growth for Canada's economy.

The Government of Canada, the Board of Directors, the Member Council, Canada's clean technology innovators, and, above all, the small dedicated staff of SDTC deserve to be congratulated for the enormous effort this year.

The success achieved in such a short period of time has been affirmed by the approximately five hundred applications submitted by consortia of entrepreneurs and innovators from across the country and from all industry sectors. The Government of Canada saw fit to acknowledge this success by increasing the funding for SDTC in its February 2003 budget by a further \$250 million.

The progress of SDTC towards achieving our common goal has already been profound and holds great promise for Canada and for our country's clean technology innovators.

James M. Stanford
Chairman

One of the most serious challenges we face is addressing global climate change as we work to sustain a growing global economy.



The start-up of any enterprise is filled with promise, opportunity, choice and challenge, and SDTC is no exception.

As SDTC's President and CEO, I am excited to be a part of shaping the future of Canada's commitment to clean technology innovation.

It is truly a privilege to work with, and in support of, such an impressive and innovative group of entrepreneurs. It has been one of the most energizing and rewarding experiences of my life to quantify the breadth and extent of clean technology innovation across this country.

When we saw the overwhelming response to our first 2 rounds of funding – \$876 M in funding requests submitted by over 500 consortia comprised of over 2000 organizations – we realized that we had captured a national snapshot of clean technology innovation. An opportunity we had to seize, or risk losing.

To underscore the importance – and benefits of supporting clean technology innovators – many entrepreneurs across Canada have told me about their struggles to finance their ideas so that they can bring them to market. Many have subjected themselves to personal financial hardship because they believe in their vision and the value of their ideas. If our country's competitiveness is to be enhanced, if we want to create a better, cleaner world, we owe it to ourselves to support the efforts of these innovators.

To that end, since we opened our doors for business with the launch of the first round of funding after five months of operation, SDTC has been working with key players in the innovation chain: governments, academia, NGOs, the private sector – and in particular, the financial sector – to convince them that there are fundamental structural gaps in the innovation chain which need addressing.

I am excited to be a part of shaping the future of Canada's commitment to clean technology innovation.

Central to our message is that if Canada is to be effective at commercializing clean technologies and to reap the rewards, the venture capital sector, private investors and governments need to address the financing gap in the innovation chain. This gap is a significant barrier to market entry for most Canadian entrepreneurs, but particularly so for clean technology innovators.

To help entrepreneurs we are working to engineer a cultural shift in the venture capital community, which must pursue opportunities – particularly clean technologies – more aggressively. Encouraging venture capitalists to make more upstream investments in Canadian clean technology ingenuity may increase the perception of greater risk but it also enables them to have access to greater gains, especially since partnering with SDTC mitigates risk through an extensive and competitive application process.

To match this, governments need to support development and pre-commercialization efforts after the initial R&D stage. Pre-commercialization is the weakest link in Canada's innovation chain. SDTC will continue to work with governments, venture capitalists, angel investors, and financial institutions in an effort to close this financial gap.

It is encouraging to see the difference we have been able to make in the evolution of the organizations we are supporting. They have expressed their appreciation for our assistance, and we are deeply gratified. From this feedback, we know that our business model and due diligence processes have opened doors for them to new markets, new opportunities and access to important financial resources. Not everyone can receive funding, but by working with SDTC throughout the funding allocation process, business cases have been strengthened and new contacts made. This coaching and “connectivity” to potential investors differentiates SDTC and provides value beyond just the dollars.

It is inspiring to see the prospects for SDTC to play a meaningful role in building an infrastructure of sustainable development (SD) technology in Canada. Strengthening linkages and creating partnerships is the foundation of a viable SD technology network. We will work to attain a critical mass of companies that create and produce SD technologies so that the national economy becomes more productive, profitable and sustainable.

The term SD has become more prevalent but in truth it is little understood, particularly when it comes to implementation. I firmly believe that adoption of its tenets is the only way we can shape a better future. This is why we have worked so hard at SDTC to put in place exceptional due diligence processes and to access the best advisors/evaluators. Comprehensive performance measurement is a part of our ethos, which is a necessity if the benefits of SD are to become a reality.

We have the support of a strong, diverse and committed Board. We have a level of funding that is capable of making an impact. We have a Member Council that is supporting and guiding us. We have a large and growing network of technology and business experts who are helping us evaluate and assess the best proposals.

We have a strategy, a structure, a process and a focus that has already shown itself as sound. We are providing Canadian taxpayers with the benefit of leveraged investments.

We have a Team that is totally committed to SDTC's success, a group of experienced individuals to whom I am very grateful for their support and hard work as we have built an organization from the ground up.

Most importantly, we have the entrepreneurs themselves. Their commitment deserves our full support. Working with them, we truly appreciate the meaning and importance of “Partnering for Real Results”.

Vicky J. Sharpe
President & CEO



Goals and Objectives

SDTC is a fundamental building block in Canada's plan for meeting its commitments to the Kyoto protocol and for improving air quality.

For this to occur, SDTC must build a critical mass of companies which create and produce sustainable development technologies so that the national economy becomes more productive, profitable and sustainable. Hence the groundwork for a fledgling sustainable development technology infrastructure will be laid.

Our goals are to:

- Increase the pool of available sustainable development technologies
- Mitigate development, market and financing risk for SD technologies
- Fast-track technologies to market
- Build consortia representing all elements of the innovation chain, thereby increasing the likelihood of market entry
- Assist entrepreneurs/innovators from across Canada to improve their business case and their capabilities
- Close the gap in the innovation chain by financing into the pre-commercial development and demonstration phase
- Leverage SDTC investments
- Gain support from the financial sector increasing availability of follow-on funding for SDTC supported technologies
- Ensure the rapid diffusion of the new SD technologies in all sectors throughout Canada
- Build a critical mass of Canadian SD technology developers to create a competitive infrastructure.

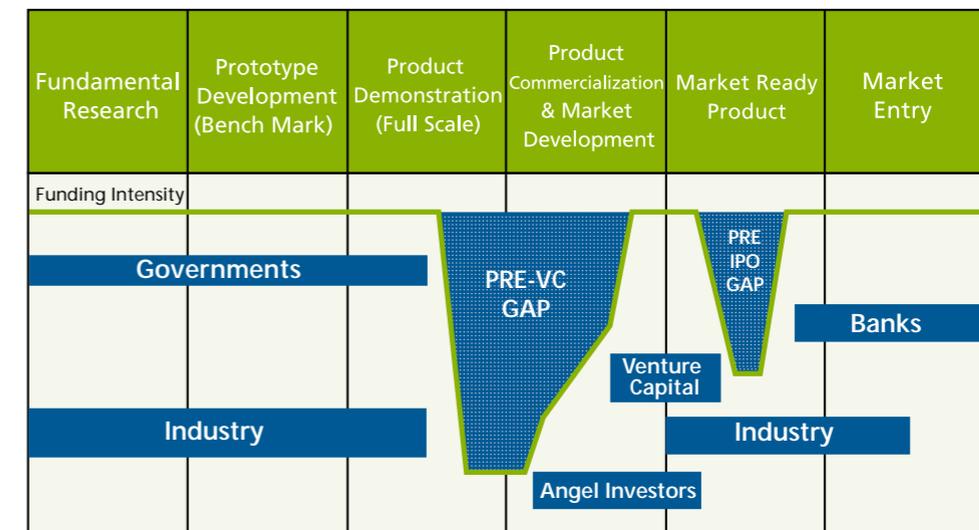
Scope of SD Technologies

SDTC's focus is on fostering the development of new sustainable development technologies that are relevant to Canada's primary economic sectors:

- Energy exploration and production, transmission, and distribution
- Power generation
- Transportation
- Forestry
- Agriculture
- Building/construction
- Energy utilization in the industrial, commercial, and residential sectors.

Within these sectors, we have received applications representing ten major technology categories encompassing such areas as, biomass conversion processes, renewable fuels, sequestration, fuel cells, advanced batteries, sensors and controls, efficient buildings, enabling technologies, and waste management.

The Innovation Chain



of Energy and Environment Deals by Stage*
 * Source: MacDonald & Associates, Oct 2002

Fledgling enterprises seldom obtain the access they need to the financial and marketing resources or market receptors, which are key to commercial success. If there is a break in the innovation chain, the innovator is likely to fail or go offshore to find the needed support. If that happens, then Canada loses the economic benefit that commercial success would generate. The other outcome is a lost opportunity cost because money spent upstream on research and development is not transformed into a market-ready product. We lose our international competitive edge and risk falling further behind the rest of the world in comparative economic wealth and prosperity.

For the entrepreneur, advancing along the innovation chain is a function of managing risk – developmental, financial and market. A key to success is receiving funding at the various stages of the innovation spectrum.

At the concept stage, various Federal and Provincial government agencies provide funding for basic and fundamental research. Downstream, at later stages of development, angel and venture capital, bank financing and equity investment capital are more readily available when risks are more manageable and product commercialization and market development possibilities are more apparent.

Between these stages of development, there are gaps that inhibit successful progress along the innovation chain. The major gap is the stage between the publicly funded research and development stage and the privately funded market entry or commercialization stage. SDTC has identified this as the pre-VC funding gap.

Our goal is to step in and fill the pre-VC funding gap, providing funding continuity along the innovation chain. We aim to bring technologies to the stage where they will be picked up by the private sector and attain market entry. It is only when society adopts SD technologies that emission reductions can occur and the associated benefits be realized.

Concentrating on this pre-VC funding gap also allows us to work in concert with existing sources of public and private funding, providing financial and other assistance where it is needed rather than where it is already available. SDTC's primary focus is at the expensive demonstration phase, differentiating its efforts and providing a much-needed link in the chain.



partnering.

Funding Allocation Process

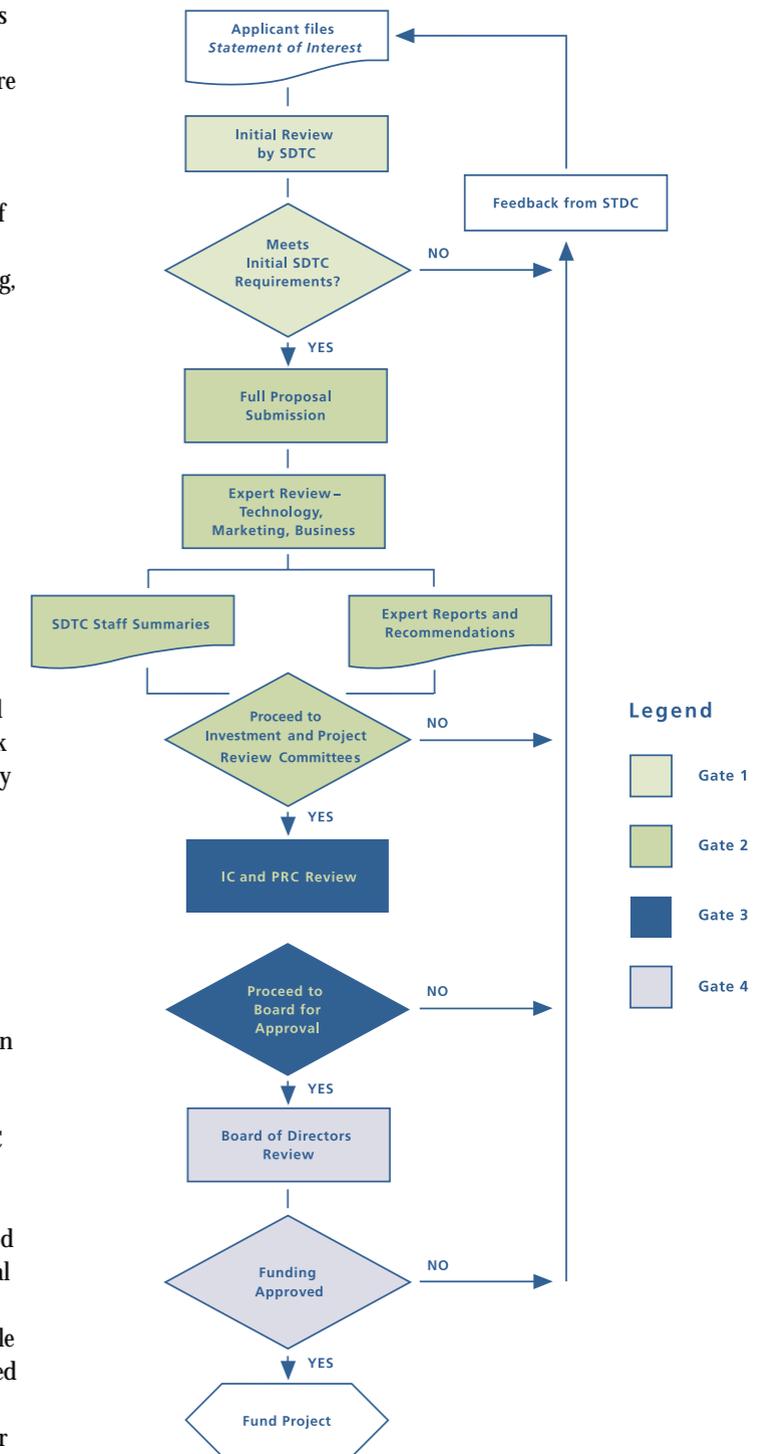
SDTC's funding allocation process has two phases for applicants and four decision points or gates. The intent is to balance the level of effort to prepare applications with the need for high quality and equitable screening of the submissions.

Phase 1 requires the submission of a Statement of Interest (SOI), which in general terms describes the new technological development seeking funding, its state of development, emission impacts, marketing implications and partnership capabilities. Each Round of Funding is initiated by a call for SOIs, to which qualified partnerships / consortia may apply. The timeline for preparation and submission is typically six weeks.

After a review of the SOIs (Gate 1), successful applicants move on to Phase 2 and are invited to prepare a full proposal. A ten-week period is allowed for this phase. For those who are unsuccessful, but where the technology is at the right stage of development and the nature of requested support reasonable then they may choose to work with SDTC to modify their approach and re-apply to another Round of Funding.

Phase 2 proposals are sent for confidential expert review and are evaluated against the established technical, marketing and partnership/business criteria. This body of external reviewers, drawn from international sources, may determine that the application does not merit further consideration and it will be rejected at this stage (Gate 2).

Summaries of those applications that meet SDTC requirements, in the opinion of the experts, plus the proposals are sent to the Investment Committee (IC) for consideration of the proposed technologies, specifically focusing on the potential for success in the marketplace. This Committee, comprised of leaders in the financial and sustainable development arenas, prepares a list of recommended projects for consideration by the Board's Project Review Committee (PRC) (Gate 3), who send their recommendations to the Board for approval.





Finally, the SDTC Board of Directors will assess the opportunities from a strategic perspective and approve funding allocations (Gate 4). From there, successful applicants will be approached and funding agreements negotiated.

In its initial year of operation (2002) SDTC launched two funding rounds with the first one concluded in the fourth quarter. Each Round of Funding takes about 9 months to complete. In years 2003 through 2006, there will be two funding allocation announcements per year.

The SD Network

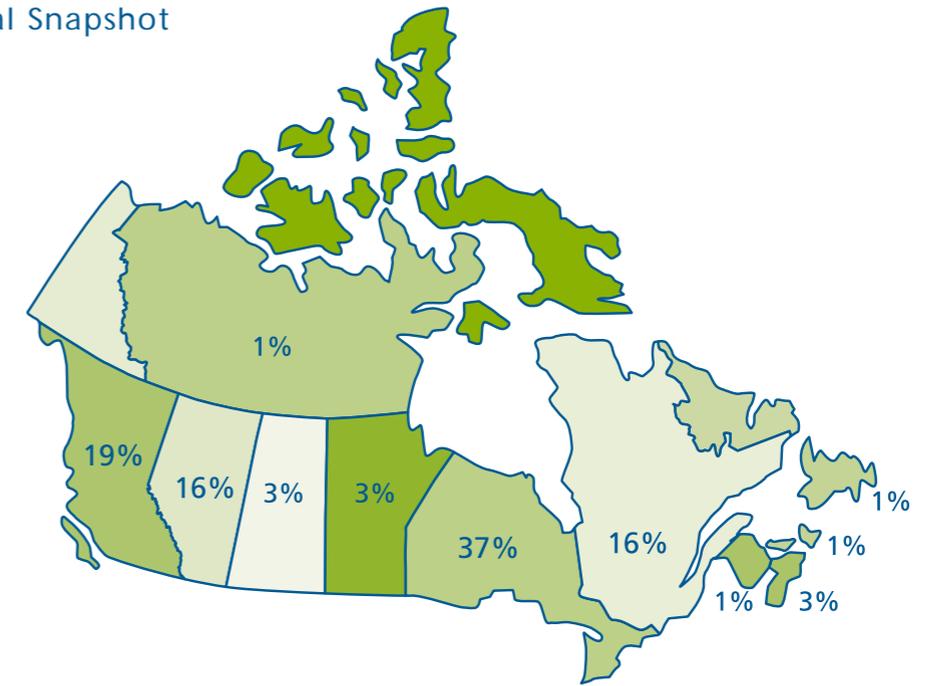
The rate and extent of technology adoption is hampered by the users' perception of risk. A significant way to address this risk is to incorporate technology users in a development consortium. Other barriers include an inability to manufacture the product in sufficient volume and to have the supply chain mobilized. Therefore, combining this range of players in a consortium increases the likelihood of the technology attaining market entry.

The differentiating characteristic of SDTC is that it funds consortia not individual companies. There is substantial value to include as many players as possible from the innovation chain in a consortium, thus increasing chances for success. Therefore, SDTC selects partnerships with a "go to market" capability. SDTC operates at the centre of many different stakeholder networks and is positioned to help applicants build this type of consortium.

National Response

SDTC launched two funding rounds in 2002, closing at the end of April and July, respectively. During these two rounds, SDTC received more than 500 applications from consortia representing some 2000 individual companies, where industry led 90 per cent of these submissions. Consortia included representatives from the academic community, technology users and distributors, NGOs and the private sector where both small and medium enterprises and multi-national companies were represented. SDTC has successfully tapped into all provinces and one territory.

National Snapshot



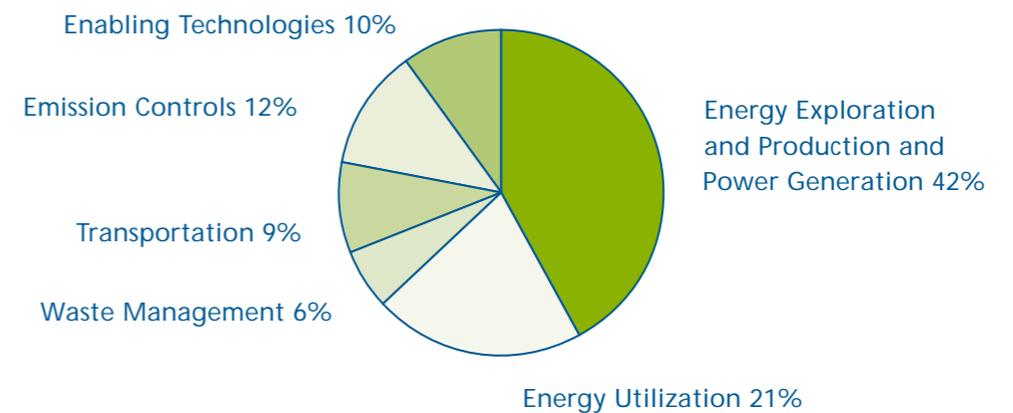
SOI Applications by Region

Requests for funding from SDTC totaled \$876 million which when combined with leveraged private sector support, resulted in total project funding of \$2.8 billion.

Based upon applicant reported data, if all these projects were funded and successfully commercialized, the total contribution to greenhouse gas emissions reduction is estimated to be in the range of 165 mega-tonnes, a significant percentage of the estimated 236 mega-tonnes needed to meet 2010 Kyoto protocol targets.

Sector Response

All the primary economic sectors in Canada were represented in the applications received. SDTC has engaged the top emission creators at a level proportional to their emissions indicating that there is a commitment to develop SD technologies by these sectors.





sustainable.

Successful Projects

In 2002 the Board of Directors approved seven projects for possible funding, pending successful contract negotiations. The \$6.2 million of SDTC funds were matched by private sector contributions for a total project value of \$39.2 million. If successful, the contribution to emissions reductions would be (based on applicant reports) 11 mega-tonnes.

The seven successful projects are;

1. **Bio-Terre Systems of Sherbrooke, Quebec** - a consortium of three players seeking to produce energy from hog manure and to manage nutrients from intensive pig farming in a sustainable fashion.
2. **Carmanah Technologies of Victoria, British Columbia** - a consortium of three players seeking to develop low energy consumption, solar powered edge-lit signage for commercial mainstream applications.
3. **CO₂ Solution Inc. of Sainte-Foy, Quebec** - a consortium of five players seeking to use an enzyme bioreactor to sequester CO₂ in the form of inert bicarbonate compounds.
4. **Mabarex inc of Saint-Laurent, Quebec** - a consortium of five players seeking to develop a new papermill drying process that reduces energy consumption.
5. **Nova Chemicals Corporation of Calgary, Alberta** - a consortium of three players seeking to improve a polymer membrane for improved chemical processes thus reducing energy consumption.
6. **Suncor Energy Inc. of Calgary, Alberta** - a consortium of seven players seeking to capture CO₂ emissions, inject and sequester them and produce enhanced volumes of coal bed methane.
7. **Westport Innovations of Vancouver, British Columbia** - a consortium of five players seeking to develop a commercial process using liquefied natural gas as a fuel for heavy duty trucking, thereby improving efficiency and reducing emissions.

Results to Date

The results to date allow for some interesting observations. Clearly, from the size and number of applications submitted in such a short time there is a huge, untapped capacity and need for funding sustainable development innovation in Canada.

The partnership and consortia concept has been well received as shown by the quality and number of private sector, university, not-for-profit and government agency consortia that have applied for funding from SDTC.



The private sector sees value in working with SDTC and its funding model as ninety percent (90%) of the applications were industry led. Private investors need a strong quantified validation of proposals that lowers their risk assessment; SDTC provides that through its due diligence processes.

The potential to make a real contribution to meeting Canada's Kyoto accord commitments for greenhouse gas emission reductions is substantial. Most of the proposals came from high emissions creating sectors like the energy production, power generation and transportation sectors – there will be widespread industry application opportunities of commercially proven innovations and real promise of significant greenhouse gas reductions.

The ability to obtain private sector funding, in excess of SDTC funding, by up to two thirds has been achieved in the applications seen to date. Once SDTC supported projects are completed successfully, the increased deal flow of these reduced risk “pre-qualified” projects through to the private sector will improve the prospects for future funding and increase the potential for SD technologies.

From our early statistics, it is clear that there is a national capacity for SD technology on which to build an infrastructure in Canada and achieve the mission and goals of SDTC.

Performance Measurement

SDTC has been created and financed as a funding organization by the Government of Canada and as such has a significant responsibility to fully report on its performance to the Board, the Member Council, the Parliament of Canada through the Minister of Natural Resources Canada, other prospective funding sources, and the public at large.

The reporting criteria flow from the Mission and Goals of the organization so that project investment performance and success criteria are fully integrated. In this manner, SDTC embraces the approach of being accountable for its investments.

SDTC is developing a corporate performance evaluation plan in line with its primary goals. There is an overall logic model which cascades from corporate performance to measurement of results at the project specific level. From this framework, contractual requirements for each of the successful consortia have been derived. Data collection and verification processes have been put in place such that funding is predicated on the achievement of project milestones and the submission of data three years post project completion. In this way, a comprehensive understanding of individual technology development and attainment of corporate goals can be measured and monitored.

In its first year, SDTC incorporated the necessary evaluation plans in the contracts under negotiation with the successful consortia.

Building for Success

In 2002, SDTC launched the first two rounds of funding and organized and established the infrastructure to manage and deliver the Fund. If the seven projects from Round One are completed successfully and then picked up by venture capitalists, in one year SDTC will have doubled the deal flow in Canada for SD technologies.

The second phase of Round Two has commenced and twenty-one consortia have been invited to submit proposals. These were reviewed at the Investment Committee and Project Review Committee level and will be presented to the Board in May of 2003.

This is a strong start. SDTC will continue to fund into the pre-VC gap and expand the number of innovators pursuing development and commercialization of their ideas. We expect to fund between ten and twenty projects per year supported by \$20 million of SDTC grants, and leveraged by two to three times that from other sources. The two funding rounds will be launched in January and August of 2003.

Moving forward, SDTC has identified key success criteria that it believes are necessary to meet its objectives and corporate obligations. These criteria form the basis of evaluation plans so that SDTC's long-term corporate performance can be assessed.

SDTC's future plans are to:

- Continuously improve the quality of our due diligence processes for project selection.
- Select projects based on excellence; ones that, with SDTC's involvement, have the highest likelihood of success, have significant impact on emission reductions, and can provide measurable results.
- Create a funding mechanism that has longevity (such as, additional Government funds).
- Maintain a focus on helping Canada meet its Kyoto targets for emissions reductions.
- Develop recognized standards with stakeholders, government and funding partners to ensure coherency in monitoring and measuring emission reductions.
- Facilitate networking and cooperation across the investment community and industry to leverage support, both skills and financial, for future project investments.
- Build strong consortium partnerships to strengthen projects with a focus on sustainability.
- Expand Canada's SD capacity and build an infrastructure by increasing awareness and understanding of SD technologies.
- Deliver entrepreneurial excellence workshops to clean technology innovators to enhance the likelihood of commercial success.

Initial mapping of SD technologies and processes vs. economic sectors and their applications will be undertaken in concert with the level of national response to identify gaps and areas of strengths in SD technologies. From this data, we will commence building the architecture of a national strategy for the development of an SD technology infrastructure.

Through its funding initiatives, SDTC will assist with the rapid diffusion of technologies that will provide positive and lasting benefits across all sectors throughout Canada. SDTC will continue to work with its stakeholders to increase Canada's capacity to make progress towards sustainable development.



Auditor's Report

To the Board of Directors and Members of Canada Foundation for Sustainable Development Technology

We have audited the statement of financial position of Canada Foundation for Sustainable Development Technology as at December 31, 2002 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Foundation'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 Foundation as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Canada Corporations Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

The comparative figures for December 31, 2001 were reported on by another firm of chartered accountants.

Chartered Accountants

Ottawa, Canada
March 20, 2003

Statement of Financial Position

December 31, 2002, with comparative figures for 2001

	2002	2001
Assets		
Current assets:		
Cash and cash equivalents	\$ 248,843	\$ 157,549
Accounts receivable	97,241	16,636
Goods and services tax refund receivable	46,909	—
Prepaid expenses	20,441	—
	413,434	174,185
Investments (note 2)	100,685,319	50,694,445
Capital assets (note 3)	450,968	12,653
	\$ 101,549,721	\$ 50,881,283
Liabilities and Deferred Contributions		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 289,979	\$ 182,397
Lease inducements	66,340	—
	356,319	182,397
Deferred contributions:		
Expenses of future periods (note 4)	100,742,434	50,686,233
Related to capital assets (note 5)	450,968	12,653
	101,193,402	50,698,886
Lease commitment (note 6)		
	\$ 101,549,721	\$ 50,881,283

See accompanying notes to financial statements.

Statement of Operations

Year ended December 31, 2002, with comparative figures for the nine months ended December 31, 2001

	2002	2001
Revenue:		
Amortization of deferred contributions related to current year operations (note 4)	\$ 2,093,224	\$ 731,626
Amortization of deferred contributions related to capital assets (note 5)	41,183	2,222
	<u>2,134,407</u>	<u>733,848</u>
Expenses:		
General administration	418,480	165,220
Amortization of capital assets	41,183	2,222
Governance	176,329	69,384
Investment fund management fees	110,781	55,344
Outsourced services	637,224	184,375
Financial audit	15,073	8,000
Staff resources	505,694	39,805
Project screening and evaluation	67,353	—
Infrastructure development and outreach	65,355	—
Other	96,935	209,498
	<u>2,134,407</u>	<u>733,848</u>
Excess of revenue over expenses	<u>\$ —</u>	<u>\$ —</u>

See accompanying notes to financial statements.

Statement of Cash Flows

Year ended December 31, 2002, with comparative figures for the nine months ended December 31, 2001

	2002	2001
Cash provided by (used in):		
Operating activities:		
Items not involving cash:		
Excess of revenue over expenses	\$ —	\$ —
Amortization of capital assets	41,183	2,222
Amortization of deferred contribution related to current year operations	(2,093,224)	(731,626)
Amortization of deferred contribution related to capital assets	(41,183)	(2,222)
Changes in non-cash operating working capital items	(40,373)	165,761
	<u>(2,133,597)</u>	<u>(565,865)</u>
Investing activities:		
Purchase of capital assets	(479,498)	(14,875)
Purchase of investments (net)	(49,990,874)	(50,694,445)
Lease inducements	66,340	—
Investment income	2,628,923	1,432,734
	<u>(47,755,109)</u>	<u>(49,276,586)</u>
Financing activities:		
Grant contribution	50,000,000	50,000,000
	<u>91,294</u>	<u>157,549</u>
Increase in cash and cash equivalents	91,294	157,549
Cash and cash equivalents, beginning of year	157,549	—
Cash and cash equivalents, end of year	<u>\$ 248,843</u>	<u>\$ 157,549</u>

The Foundation considers cash equivalents to be highly liquid investments with original maturities of three months or less.

See accompanying notes to financial statements.

Notes to Financial Statements

Year ended December 31, 2002

Canada Foundation for Sustainable Development Technology – Foundation pour l'appui technologique canadien au développement durable (the "Foundation") was established by Bill C-4 of the First Session of the Thirty-seventh Parliament of Canada and was incorporated under the Canada Corporations Act as a not-for-profit corporation on March 8, 2001. Pursuant to a funding agreement between Her Majesty the Queen in Right of Canada, as represented by the Minister of Natural Resources and the Minister of the Environment, and the Foundation dated March 26, 2001 (the "Funding Agreement"), the Foundation became entitled to receive a grant of \$100,000,000 for the purposes of establishing the Sustainable Development Technology Fund (the "Fund"). During April 2001, the Foundation received \$50,000,000 of the grant amount, and received the remaining \$50,000,000 during April 2002.

The Foundation's purpose is to provide financial support to projects that develop, demonstrate and commercialize new technologies that have the potential to advance sustainable development, including technologies to address climate change and air quality issues. This support is provided to eligible recipients that have established partnerships which are comprised of a private sector commercial corporation and one or more of: a private sector commercial corporation, a university or college, a private sector research institute, a not-for-profit corporation, or a federal or provincial crown corporation (or subsidiary) whose role is the provision of resources and/or facilities to the consortium as a subcontractor.

The Foundation shall endeavour to ensure that there are funds available to fund new eligible projects up to December 31, 2006 and, where eligible projects warrant, to disburse funds in each year up to December 31, 2008. With the exception of a reasonable amount reserved for related project monitoring and evaluation, and for wind-up costs, the Foundation shall also endeavour to disburse the Funds in total by December 31, 2008 and will manage those distributions up to June 30th, 2011.

1. Significant accounting policies:

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

(a) Revenue recognition:

The Foundation follows the deferral method of accounting for contributions. Contributions, including grants received and interest earned on the invested amounts, are recognized as revenue in the year in which the related expenses are incurred by the Foundation.

Contributions applied towards the purchase of capital assets are deferred and amortized to revenue on a straight-line basis, at a rate corresponding with the amortization rate of the related capital assets.

(b) Capital assets:

Purchased capital assets are recorded at cost. Amortization is provided on a straight-line basis over the assets' estimated useful lives using the following annual rates:

Asset	Rate
Computer hardware	30%
Computer software	50%
Office furniture and equipment	20%
Leasehold improvements	Term of lease

Notes to Financial Statements Continued

(c) Investments:

Investments are recorded at cost. If the market value of investments becomes lower than cost and this decline in value is considered to be other than temporary, the investments are written-down to market value.

(d) Lease inducements:

Lease inducements are amortized on a straight-line basis over the term of the lease.

2. Investments:

	2002	
	Market value	Cost
Cash and cash equivalents	\$ 4,894,575	\$4,894,575
Fixed income securities	97,082,413	95,790,744
	\$ 101,976,988	\$ 100,685,319

	2001	
	Market value	Cost
Cash and cash equivalents	\$ 50,694,445	\$ 50,694,445

(a) Investment risk:

Investment in financial instruments renders the Foundation subject to investment risks. This risk arises from changes in interest rates if investment instruments are withdrawn prior to maturity or should market interest rates increase significantly over those of the investments of the Foundation. The Foundation follows the practice of investing in securities with low risk.

(b) Concentration risk:

Concentration risk exists when a significant portion of the portfolio is invested in securities with similar characteristics or subject to similar economic, political or other conditions. Management believes that the concentrations described above do not represent excessive risk.

Notes to Financial Statements

Year ended December 31, 2002

3. Capital assets:

			2002	2001
	Cost	Accumulated amortization	Net book value	Net book value
Computer hardware	\$ 25,381	\$ 8,251	\$ 17,130	\$ 10,975
Computer software	32,151	5,436	26,715	-
Office furniture and equipment	177,888	13,229	164,659	1,678
Leasehold improvements	258,953	16,489	242,464	-
	\$ 494,373	\$ 43,405	\$ 450,968	\$ 12,653

During the year, capital assets were acquired at an aggregate cost of \$479,498.

Cost and accumulated amortization at December 31, 2001 amounted to \$14,875 and \$2,222, respectively.

4. Deferred contributions - expenses of future periods:

Deferred contributions related to expenses of future periods represent the unspent balance in the Fund that is restricted for disbursement to eligible sustainable development technology projects, as defined in the Funding Agreement, in future years. The change in the deferred contributions balance for 2002 is as follows:

	2002	2001
Balance, beginning of year	\$ 50,686,233	\$ -
Grant received	50,000,000	50,000,000
Investment income	2,628,923	1,432,734
	103,315,156	51,432,734
Less amount amortized as revenue	(2,093,224)	(731,626)
Less invested in capital assets	(479,498)	(14,875)
	\$ 100,742,434	\$ 50,686,233

Notes to Financial Statements

Year ended December 31, 2002

5. Deferred contributions related to capital assets:

Deferred contributions related to capital assets represent contributed capital assets and restricted contributions with which computer hardware, software, office furniture and equipment and leasehold improvements have been purchased. The change in the deferred contributions balance for 2002 is as follows:

	2002	2001
Balance, beginning of year	\$ 12,653	\$ -
Capital assets purchased	479,498	14,875
Less amount amortized to revenue	(41,183)	(2,222)
	\$ 450,968	\$ 12,653

6. Lease commitment:

The Foundation has entered into a commitment to sublease space for its Ottawa office location for the following gross amounts :

2003	\$ 132,680
2004	132,680
2005	132,680
2006	110,567
	\$ 508,607

7. Comparative figures:

Certain 2001 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2002.



network.

Board of Directors

Sustainable Development Technology Canada is governed by a Board of Directors reflecting the broad interests of the public, private and academic sectors in Canada. It is composed of fifteen members, seven of whom are appointed by the Government of Canada. The remaining eight are appointed by Members. There are three Board committees; the Corporate Governance and Human Resources committee (G&HR), the Project Review committee (PRC), and the Audit committee (AC). Committee appointments are as indicated below.

T.M. (Mike) Apsey, (G & HR)
Michael J. Brown, (PRC)
Angus A. Bruneau, (PRC)
Alain Caillé, (G & HR)
Charles (Charlie) S. Coffey, (G & HR)
Richard Drouin, (G & HR)
David Johnston, (AC)
David Kerr, (AC)

Ken Ogilvie, (PRC)
Jane E. Pagel, (PRC)
Dee Parkinson-Marcoux, (AC)
Elizabeth Parr-Johnston, (AC)
David Pollock, (G & HR)
Jacques Simoneau, (AC)
James M. Stanford, Chairman, (PRC), (G & HR), (AC)

Members

The Members of the Foundation consists of fifteen industry leaders, seven of whom are appointed by Canada and the remaining eight by this initial group. Their function is to provide an informed and representative perspective and contribution towards the achievement of SDTC 's mission and goals. The Members also act as a proxy for shareholders.

Pierre Alvarez, Canadian Association of Petroleum Producers
Mary Louise Bernard, First Nations
Carl Brothers, Atlantic Wind Test Site
James Knight, Federation of Canadian Municipalities
Hans R. Konow, Canadian Electricity Association
Louis LaPierre, University of Moncton
Manon LaPorte, Enviro-Access
Rita Mirwald, CAMECO Corp.
Mark Nantais, Canadian Vehicle Manufacturers' Association
John (David) Runnalls, International Institute for Sustainable Development
Indira V. Samarasekera, University of British Columbia
Andrew T.B. Stuart, Stuart Energy Systems Inc.
Katherine Trumper, Management Consultant, Nanavut
Judith A. Whittick, C-CORE
D. Joseph Wright, Pulp and Paper Research Institute of Canada

Administration

SDTC is comprised of a small, dedicated team in Ottawa. The Team has quickly built a framework to operationalize the fundamental funding activities and formalize the linkages and synergies across our network of allies and stakeholders.

Greg Graham, V.P. Operations
Paula Harris Syed, Manager, Contracts
Blaine Kennedy, Manager, Screening and Evaluation
Eleanor McMahon, Director of Communications

Vicky J. Sharpe, President and CEO
Shanaz Sigouin, Executive Assistant
Anjali Varma, Manager, Applications
Rick Whittaker, V.P. Investments



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