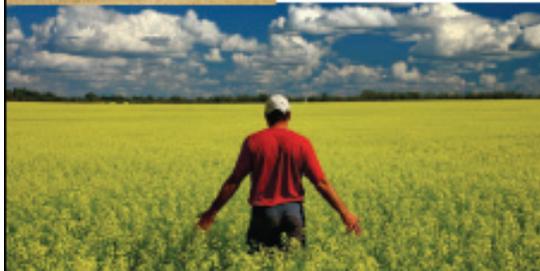




#ThisIsCleantech



Sustainable Development
Technology Canada

Annual Report 2014

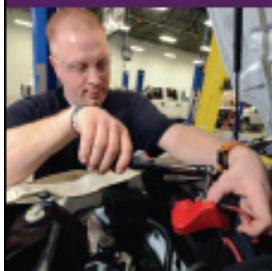


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Message from the Chair



2014 marked a year of renewal for Sustainable Development Technology Canada (SDTC). While we continued to pursue our mandate to bring economically-viable clean technologies to market, we also placed great emphasis this year in ensuring we achieved it in the most efficient and transparent fashion possible.

We initiated a streamlined application process for grants so that the entrepreneurs we work with can focus on running their businesses. We updated our governance and accountability policies and practices to ensure that our investments, on behalf of Canadians, achieve the greatest impact possible. We have also taken steps to ensure that SDTC can become financially sustainable, securing our first private sector contributor this past year. Finally, SDTC improved its suite of talent

management tools, helping to drive performance and development, resulting in a stronger performance management program and succession planning process.

These efforts combined contributed to a long-term commitment to SDTC and its important mandate by the Government of Canada. In 2014, the Government announced they would invest in SDTC over the next seven years. The Government of Canada, and all Canadians, can take pride in the SDTC-supported, globally-competitive Canadian companies that produce tangible environmental benefits that also make Canada's economy more competitive.

Over the past year, we saw a number of long-time staff, members of the Board of Directors and the Member Council pass the torch to new team members. We are grateful to everyone who has been part of SDTC for their dedication and service to the organization and look forward to seeing contributions made by our recently appointed staff in the coming months. I'd like to specifically thank Interim CEO, Jane Pagel, for her stewardship of the organization this past year. She brought a wealth of knowledge and strong leadership at a critical juncture for the organization.

SDTC is well situated to contribute to Canada's double bottom line: creating quality jobs and economic growth while preserving our ecosystem. I, along with my colleagues on the Board, remain committed to supporting the team, including our new CEO, Leah Lawrence, in pursuing this important goal in 2015.

Jim Balsillie
Chair

Message from the Interim President and CEO



2014 was a pivotal year for SDTC. With a change in leadership, I had the privilege to join as Interim President and CEO in June, and also participated on the Search Committee for a new CEO. The Board gave me three priorities, which were to enhance our relationship with our Federal partners and strengthen external linkages; improve SDTC's internal communications; and reduce discretionary and operational spending.

The year culminated in the signature of our Funding Agreement with the Government of Canada, which enabled us to deliver on the Government's \$365 million commitments from Budgets 2011 and 2013. This agreement ensures stable, predictable funding to the Foundation through 2017.

SDTC's Granting Management Process has become digital. In 2014 a new system has been put in place to act as a central point for all Granting activities. All grant applications are now being done on-line in both official languages and will be managed to project completion in a paperless system. Updated securities and controls have also been put in place along with automated monitoring tools.

Several cost-cutting initiatives have resulted in operating expense savings of \$1.2 million in 2014 with a further reduction in budget spending of \$2.1 million in 2015. These initiatives include renegotiated service and lease agreements, a streamlined effort to ensure we have the right team in place and to make the most of our in-house talents, as well as improved efficiencies through process automation.

The year 2014 was also a strong year for new and renewed partnerships. We announced the creation of the SD Natural Gas Fund™ - the first ever injection of private sector capital to the Foundation. The Fund will bring together contributions from Canadian Gas Association members through their Energy Technology Innovation Canada Initiative to match contributions from SDTC's SD Tech Fund™, up to a combined total of \$30 million over three years. Investments through the fund will support the development and demonstration of new downstream natural gas technologies.

2014 kicked off a few initiatives focussed on fostering a collaborative culture within SDTC, developing a positive work environment through engaging staff in open and frequent dialogue and transparent communications. It has been a pleasure to see the very talented team at SDTC embrace new ways of doing things for an increasingly efficient and effective fulfillment of our mandate. In my short tenure as CEO I've especially enjoyed working with SDTC's staff and partners all of which are dedicated to building Canada's cleantech industry. Global markets are demanding the products our portfolio is delivering, our momentum is strong and I look forward to continuing the work we've started together.

Jane Pagel
Interim President and CEO

#ThisIsCleantech

SDTC has chosen to embrace a social media convention for the theme of the Annual Report 2014. We want to launch right into the discussion – an important discussion that is happening at all levels of policy-making, of decision-making, of business building – and more. *What is cleantech?*

#ThisIsCleantech

Tools that make natural resources extraction have less of an environmental footprint.

#ThisIsCleantech

Innovations that allow a building to be more energy efficient.

#ThisIsCleantech

Technologies that enable renewable energies to power our communities.

#ThisIsCleantech

A sector of the Canadian economy that puts 41,000 people to work – and enables \$11.3 billion in revenues¹.

#ThisIsCleantech

An opportunity for Canada to grow its economy and reach the world stage – where a \$1.1 trillion dollar market is hungry for the cleantech our country keeps pumping out².

#ThisIsCleantech

Technologies that reduce GHGs. In 2014, 66 projects completed that year reported actual GHG reductions of approximately 4.5 CO₂e.

At SDTC, we are proud of the many technologies in our portfolio that are making a difference here at home while making their way to market. These are projects being led by some of Canada's brightest and most innovative entrepreneurs. As of the end of 2014, since inception, our portfolio features 285 projects and a value of \$2.9 billion, including partners participation, thanks to the nearly \$2 billion of leveraged funds from partners in industry and other governments.

We are a results-driven organisation. We track the numbers that make up the success stories and learnings of our portfolio. That said, 2014, like the years before it, can be categorised, with confidence, as a success.

Report on Results and Priorities

SDTC spent 2014 ensuring that Canada makes the most of the cleantech opportunity. For details, please see SDTC's corporate plan. Here are some highlights:

Responsible fund management geared towards environmental benefit: Two funding rounds totalling \$71.1 million in allocations in 2014 to new and modifications to existing projects. 89 percent of our projects have multiple environmental benefits. The portfolio stands at 285 innovative cleantech projects with over \$740 million of SDTC funding in total.

Working with partners in the financial sector to get SDTC portfolio technologies to market: Continued growth in our ability to leverage private sector financing – with 81 percent of non-SDTC project funding coming from the private sector. Continued growth in our collaboration with EDC, having developed a better integrated way to fill finance and advisory gaps that exist for young cleantech firms in existing markets.

Communicating with Canadians: We are eager to share our success stories and raise awareness of our funds with prospective applicants, industry leaders and all Canadians so they too can share in the impressive successes of cleantech companies in their backyard. We hosted workshops that reached 1,000 stakeholders and 30 regional partners over the past year, and also shared news of a new fund (the SD Natural Gas Fund) and new projects funded with Canadians.

The best is yet to come. SDTC will continue to position cleantech as a driver of the Canadian economy. We intend to:

Find more deal flow – then launch it to the world stage: SDTC will make support available through SD Tech Fund™, launching a process to find Canada's most innovative clean technologies, and put them on a path to commercialization through increased collaboration with others in the space. We will strengthen the Virtual Incubator™ so that it delivers strong projects for consideration by the SD Tech Fund™. SDTC will continue to work with the investment community with a view to provide those go-to-market consortia to SDTC portfolio projects and beyond through increased follow-on-financing and technology adoption.

Help people understand the contribution cleantech makes to a healthy and prosperous Canada: We will continue to showcase SDTC portfolio companies in communities across Canada, highlighting how cleantech drives job creation, revenues and export opportunities. We will continue to share Canadian technologies with overseas partners, positioning Canada as a reliable source of innovative clean technologies. This accomplishes SDTC's mission of improving the environmental performance of technologies by building out Canada's cleantech infrastructure and providing tangible environmental benefits for Canadians.

Contributions to SDTC

In 2014, we were pleased to launch the SD Natural Gas Fund™, an exciting vehicle for funding natural gas technologies in collaboration with the Canadian Gas Association. The CGA intends to donate up to \$15 million over the next three years, which will be matched by the SD Tech Fund™ to focus the development and demonstration of new downstream natural gas technologies.

We are eager to work with other Canadian industries to make sure they see the benefits of cleantech innovation tailored to their specific needs.

#ThisIsCleantech

In 2014, SDTC allocated \$71.1 million in funding to projects with a total eligible cost of \$238.5 million, including \$167.4 million of leveraged capital. This allocation includes some modifications to existing projects. Last year, SDTC administered two funds:

The SD Tech Fund™ supports the development and pre-commercial demonstration of clean technology products and processes that contribute to clean air, clean water, clean land and address climate change, while improving the productivity and the global competitiveness of Canadian industry. The SD Natural Gas Fund™ focuses on downstream natural gas innovations.

Funding Criteria

The Foundation must only award funding to eligible recipients who demonstrate that:

- the proposed project is technically sound and will, in the opinion of the Board, result in the development or demonstration of new sustainable development technologies;
- the Eligible Recipient brings together the necessary technical, financial and management capacity to successfully undertake the Eligible Project in a collaborative and innovative manner;
- the funding by the Foundation is necessary to ensure that the Eligible Project proceeds within the scope, with the timing or at the location necessary to ensure that significant broad benefits accrue to Canadians nationally or regionally; and
- the Eligible Recipient has provided a description and assumptions for the timely diffusion and deployment in relevant market sectors of the new sustainable development technology resulting from the proposed Eligible Project and any related incremental intellectual property.

The NextGen Biofuels Fund™ supports the establishment of first-of-kind commercial-scale demonstration facilities for the production of next-generation renewable fuels and co-products from non-food feedstocks.

Funding Criteria

The Foundation will exercise its discretion in the allocation of funding to Eligible Recipients, in

accordance with the following criteria:

- The Eligible Recipient's access to the necessary technical, financial and management capacity to successfully undertake the Eligible Project;
- The level of necessary funding required from the Foundation to ensure that the Eligible Project proceeds;
- The potential of the production pathway to deliver sustainable development benefits (social, economic and environmental) by:
 - sustainably expanding renewable fuel production in Canada;
 - improving the environmental benefits arising from the production and use of renewable fuels including the life-cycle fossil energy balance and life-cycle emissions of greenhouse gases;
 - reducing the overall financial costs of Renewable Fuels; and,
 - generating economic benefits for a wide range of communities.

GHG Reduction

Of the 119 SDTC funded projects completed prior to 2015, a total of 66 have climate change mitigation benefits and have actual annual GHG emissions reductions of approximately 4.5 Megatonnes CO₂e in 2014. These figures include adjustments made for the uncertainty of projects by applying a discounting factor to individual projects³.

Clean Air

A total of 100 projects in the SDTC portfolio have been identified as providing clean air benefits. Results indicate that the avoided health impacts, or cost, for these SDTC projects would enable a discounted³ avoided health related cost of over \$1.2 billion by 2025⁴.

Clean Water

SDTC has estimated the benefits of 32 funded clean water projects that are completed or in progress based on the avoided costs associated with water conservation in various application sectors (municipal, agricultural, manufacturing, and others) and reduced nitrogen and phosphorus loading in water systems. It is estimated that these projects will lead to an avoided annual water treatment or use cost of greater than \$45 million⁵ by 2025.

Clean Soil

The clean soil benefits associated with 29 clean soil projects are based on the avoided costs of several factors including landfill tipping fees, soil treatment and remediation for contaminated soils, and the environmental effects of diverse pollutants present in soils. Loss of agricultural productivity is considered, but population health effects of pesticide application are currently excluded from the methodology pending approval of a reliable quantification metric. We have conservatively estimated that these projects will lead to an annual avoided cost greater than \$263 million⁶ by 2025.

Specific and more detailed information is available in SDTC's Annual Report Supplement.

2014 By The Numbers

285:

Number of projects in our portfolio since inception. Of those, 119 are completed, and 123 are active. 5 were announced in 2014.

\$740 million:

Number of dollars that SDTC has allocated across Canada to date. \$56 million were dispersed in 2014 alone.

\$2 billion:

Number of public and private sector dollars supporting our portfolio projects.

\$2.7 billion:

Number of dollars that makes up our total portfolio project value.

89:

Percentage of projects that have multiple environmental benefits.

\$1.1 billion:

Estimated number of dollars in annual revenues generated by SDTC-funded companies by the end of 2014.

500:

Estimated number of jobs, direct and indirect, created by SDTC-supported companies in 2014. This brings the total up to 8,200 jobs since inception.

4.5 Megatonnes CO₂e:

Estimated projected total annual GHG reduction attributable to SDTC's portfolio projects in 2014.

Explanatory Notes

¹ Analytica Advisors, *2014 Canadian Clean Technology Industry Report*

² Ibid.

³ Consistent with other SDTC methodologies, these amounts have been discounted by up to 93.5% when market roll-out and environmental performance have not been validated. SDTC may use project-specific discount rates to assess the uncertainty of a specific investment.

⁴ The year 2025 is selected as a forecast year to capture the fact that these investments are in vehicle technologies (transport trucks, locomotives, etc.), power generation and energy efficiency systems that would have operational lifetimes as high as 20 years.

⁵ The year 2025 is selected as a forecast year to capture the fact that these investments are in water treatment, leak detection systems, or industrial process facilities that would have operational lifetimes or enduring benefits in a typical range of 20 years. This value is discounted up to a maximum internal rate of 93.5%. Further information on the methodology used to arrive at this number is available in the Annual Report Supplement.

⁶ The year 2025 is selected as a forecast year to capture the fact that these investments in waste minimization, polluted soil treatment alternatives, and reduction of pollutant loads to soil would have operational lifetimes or enduring benefits in a typical range of 20 years. This value is discounted up to a maximum internal rate of 93.5%.

Financial Statements

Year ended December 31, 2014

INDEPENDENT AUDITORS' REPORT

To the Members of Canada Foundation for Sustainable Development Technology

We have audited the accompanying financial statements of Canada Foundation for Sustainable Development Technology, which comprise the statement of financial position as at December 31, 2014, the statements of operations and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Canada Foundation for Sustainable Development Technology as at December 31, 2014 and its results of

operations and its cash flows for the year then ended and its remeasurement gains and losses for the year ended December 31, 2014, in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

(date)

Ottawa, Canada

CANADA FOUNDATION FOR SUSTAINABLE DEVELOPMENT TECHNOLOGY

Statement of Financial Position

December 31, 2014, with comparative information for 2013 (*in thousands of dollars*)

	SD Tech Fund	NextGen Biofuels Fund	2014 Total	2013 Total
Assets				
Current assets:				
Cash	\$11,487	\$7,394	\$18,881	\$10,771
Amounts receivable	79	-	79	-
Harmonized sales tax refund receivable	420	35	455	479
Inter-fund receivable (note 2)	114	-	114	839
Prepaid expenses	183	-	183	115
	12,283	7,429	19,712	12,204
Investments (note 3)	80,285	52,130	132,415	204,837
Capital assets (note 4)	681	10	691	559
	\$93,249	\$59,569	\$152,818	\$217,600
Liabilities and deferred contributions				
Current liabilities:				
Accounts payable and accrued liabilities	\$1,848	\$324	\$2,172	\$1,284
Inter-fund payable (note 2)	-	114	114	839
	1,848	438	2,286	2,123
Deferred contributions:				
Expenses of future periods (note 5)	91,401	59,131	150,532	215,477
Commitments (note 8)				
	\$93,249	\$59,569	\$152,818	\$217,600

See accompanying notes to financial statements.

CANADA FOUNDATION FOR SUSTAINABLE DEVELOPMENT TECHNOLOGY
Statement of Operations

Year ended December 31, 2014, with comparative information for 2013 *(in thousands of dollars)*

	2014			2013
	SD Tech Fund	NextGen Biofuels Fund	Total	Total
Revenue:	\$67,574	\$1,652	\$69,226	\$ 70,795
Recognition of deferred contributions (note 5)				
Expenses:				
Governance	1,164	94	1,258	1,003
Mandatory reporting	976	32	1,008	1,219
Project screening and evaluation	2,941	684	3,625	3,227
Project contracting and monitoring	1,171	18	1,189	1,105
Infrastructure development and outreach	2,138	27	2,165	1,643
Financial audit	38	29	67	46
General administration	2,133	162	2,295	1,957
Amortization of capital assets	380	22	402	340
Outsourced services	891	-	891	977
Technical and financial audit costs	108	-	108	242
	11,940	1,068	13,008	11,759
Project disbursements	55,634	584	56,218	59,036
Total expenditures	67,574	1,652	69,226	70,795
Excess of revenue over expenses	\$ -	\$ -	\$ -	\$ -

See accompanying notes to financial statements.

CANADA FOUNDATION FOR SUSTAINABLE DEVELOPMENT TECHNOLOGY
Statement of Cash Flows

Year ended December 31, 2014, with comparative information for 2013 *(in thousands of dollars)*

	2014			2013
	SD Tech Fund	NextGen Biofuels Fund	Total	Total
Cash provided by (used in):				
Operating activities:				
Excess of revenue over expenses	\$-	\$-	\$-	\$-
Items not involving cash:				
Amortization of capital assets	380	22	402	340
Recognition of deferred contributions	(67,574)	(1,652)	(69,226)	(70,795)
Investment income	1,498	774	2,272	2,959
Investment fund management fees paid	(105)	(61)	(166)	(228)
Changes in non-cash operating working capital items	1,236	(471)	765	373
	(64,565)	(1,388)	(65,953)	(67,351)
Capital activities:				
Purchase of capital assets	(534)	-	(534)	(394)
Financing activities:				
Sales of investments—net	65,345	7,077	72,422	66,397
Deferred contributions received	2,175	-	2,175	-
	67,520	7,077	74,597	66,397
Increase (decrease) in cash	2,421	5,689	8,110	(1,348)
Cash, beginning of year	9,066	1,705	10,771	12,119
Cash, end of year	\$11,487	\$7,394	\$18,881	\$10,771

See accompanying notes to financial statements.

CANADA FOUNDATION FOR SUSTAINABLE DEVELOPMENT TECHNOLOGY

Notes to Financial Statements

Year ended December 31, 2014

(Amounts in thousands of dollars unless otherwise noted)

Canada Foundation for Sustainable Development Technology – Fondation du Canada pour l'appui technologique au développement durable (the "Foundation") is a corporation continued under the Canada Foundation for Sustainable Development Technology Act, (S.C.2001) effective on March 22, 2002.

The Foundation is not an agent of Her Majesty, but is accountable to Parliament through the Ministry of Natural Resources Canada. Environment Canada and Industry Canada are the other key departments involved in the work of the Foundation.

The Foundation's mandate, governance, operations, performance requirements, accountability and relationship to the Government of Canada are defined in its governing statute and in funding agreements that have been executed by the Foundation and the Ministers of both Natural Resources Canada and Environment Canada. In this way, the Foundation operates as a fully accountable instrument of the Government of Canada to help provide timely development and demonstration of innovative technology solutions to the nationally important issues of climate change, clean air and water and soil quality.

The Foundation manages two funds: the SD Tech Fund and the NextGen Biofuels Fund, which are further described below.

SD Tech Fund

To date, the Foundation has received \$550 million in grants and is eligible to receive \$365 million in contributions from the Government of Canada to provide financial support to projects that develop and demonstrate new technologies that have the potential to advance sustainable development, including technologies to address climate change, clean air and water and soil 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.

Eligible contributions are to be received based on cash flow requirements up to March 31, 2022.

The Foundation will endeavour to ensure that there are funds available to allocate to new eligible projects at least up to June 30, 2016. With the exception of a reasonable amount reserved for related project monitoring and evaluation, and for wind-up costs, the Foundation will also endeavour to manage and disburse the funds in total by June 30, 2021.

During the year the Foundation received additional contributions of \$2.2 million from strategic partners to fund projects meeting the Foundation's mandate.

CANADA FOUNDATION FOR SUSTAINABLE DEVELOPMENT TECHNOLOGY
Notes to Financial Statements (continued)

Year ended December 31, 2014

(Amounts in thousands of dollars unless otherwise noted)

NextGen Biofuels Fund

During the year ended December 31, 2007, the Foundation entered into a funding agreement with the Government of Canada which provided for a conditional grant to be paid over the period to March 31, 2015, to create the NextGen Biofuels Fund (“NGBF”).

The NGBF provides financial support towards the establishment of first-of-kind facilities that demonstrate production pathways for next-generation renewable fuels at large demonstration scale. This support is provided to eligible recipients including for-profit corporations, partnerships, limited partnerships or business trusts with legal capacity in Canada and that have access to expertise in next-generation renewable fuels production pathways. Agreements for financial support to eligible recipients include provisions for repayability from free cash flow of the funded project.

The Foundation will disburse up to March 31, 2017 (the “disbursement period”) its share of eligible project costs incurred or to be incurred by eligible recipients. With the exception of a reasonable amount reserved for related project monitoring and evaluation, collection of repayments and for wind-up costs, the Foundation shall return any portion of the NGBF at the earlier of the end of the funding agreement on September 30, 2027, and such time or times subsequent to the end of the disbursement period as the Government of Canada may determine.

Effective December 3, 2014, NGBF is no longer accepting applications for financial support.

1. Significant accounting policies:

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards including the 4200 standards for government not-for-profit organizations:

(a) Revenue recognition:

The Foundation follows the deferral method of accounting for contributions whereby contributions, including grants received and interest earned on the invested amounts are deferred and recognized as revenue as expenses and project disbursements are incurred.

(b) Project disbursements:

Project disbursements are recognized as the awarded grants are disbursed.

CANADA FOUNDATION FOR SUSTAINABLE DEVELOPMENT TECHNOLOGY
Notes to Financial Statements (continued)

Year ended December 31, 2014

(Amounts in thousands of dollars unless otherwise noted)

1. Significant accounting policies (continued):

(c) Capital assets:

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 are amortized on a straight-line basis over the shorter of the lease term or their estimated useful lives.

When a capital asset no longer contributes to the Foundation's ability to provide services, its carrying amount is written down to its residual value.

(d) Financial instruments:

Financial instruments are recorded at fair value on initial recognition.

Derivative instruments and equity instruments that are quoted in an active market are subsequently reported at fair value. All other financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value. Management has not elected to record any such investments at fair value.

Unrealized changes in fair value are recognized in deferred contributions until they are realized, when they are transferred to the statement of operations.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the effective interest rate method.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized gain is adjusted through deferred contributions.

When the asset is sold, the unrealized gains and losses previously recognized in deferred contributions are reversed and recognized in the statement of operations.

CANADA FOUNDATION FOR SUSTAINABLE DEVELOPMENT TECHNOLOGY
Notes to Financial Statements (continued)

Year ended December 31, 2014

(Amounts in thousands of dollars unless otherwise noted)

1. Significant accounting policies (continued):

(d) Financial instruments (continued):

The Standards require an organization to classify fair value measurements using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:

- Level 1 - Unadjusted quoted market prices in active markets for identical assets or liabilities;
- Level 2 - Observable or corroborated inputs, other than level 1, such as quoted prices for similar assets or liabilities in inactive markets or market data for substantially the full term of the assets or liabilities; and
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

(e) Expenses:

The Foundation classifies expenses on the statement of operations by function. The Foundation allocates salaries, benefits and travel by identifying the appropriate basis of allocating and applying that basis consistently each year. These expenses are allocated proportionately on the same percentage as the budgeted expenditures of the functions.

(f) Use of estimates:

The preparation of the financial statements 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 amounts of revenue and expenses during the year. Actual results could differ from those estimates. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the period they become known.

2. Inter-fund balance and transactions:

The inter-fund balance receivable/payable bears no interest and is not governed by terms of repayment. As at December 31, 2014, \$114 (2013 - \$839) of operating expenses and allocated staff costs incurred by the SD Tech Fund on behalf of NextGen Biofuels Fund were outstanding.

CANADA FOUNDATION FOR SUSTAINABLE DEVELOPMENT TECHNOLOGY
Notes to Financial Statements (continued)

Year ended December 31, 2014
(Amounts in thousands of dollars unless otherwise noted)

3. Investments:					
		2014		2013	
SD Tech Fund	Level	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Money market funds	2	\$38,861	\$38,861	\$49,873	\$49,873
High interest investment savings accounts	2	22,748	22,748	30,681	30,681
	1	18,699	18,676	65,065	65,076
Fixed income securities		\$80,308	\$80,285	\$145,619	\$145,630
<hr/>					
		2014		2013	
NextGen Biofuels	Level	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Money market funds	2	\$29,328	\$29,328	\$32,873	\$32,873
High interest investment savings accounts	2	22,721	22,721	25,740	25,740
	1	82	81	593	594
Fixed income securities		\$52,131	\$52,130	\$59,206	\$59,207

There were no transfers between Level 1 and Level 2 for the year ended December 31, 2014. There were also no transfers in or out of Level 3.

Fixed income securities have coupon rates from 1.25% to 5.18% (2013 - 0.75% to 5.65%) and mature between March 2015 and June 2017.

CANADA FOUNDATION FOR SUSTAINABLE DEVELOPMENT TECHNOLOGY

Notes to Financial Statements (continued)

Year ended December 31, 2014

*(Amounts in thousands of dollars unless otherwise noted)***3. Investments (continued):**

a) Investment risk:

Investment in financial instruments renders the Foundation subject to investment risk. 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 invests in money market funds and fixed income securities, which management considers 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 diversification of the investments in money market funds and fixed income securities described above does not represent excessive risk.

(c) Credit risk:

The risk relates to the potential that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The maximum credit exposure at the Foundation is represented by the fair value of the investments as presented in the statement of financial position.

			2014	2013
SD Tech Fund	Cost	Accumulated amortization	Net book value	Net book value
Computer hardware	\$362	\$292	\$70	\$52
Computer software	1,349	809	540	318
Office furniture and equipment	564	545	19	21
Office furniture and equipment under capital leases	64	64	-	7
Leasehold improvements	650	598	52	129
	\$2,989	\$2,308	\$681	\$527

CANADA FOUNDATION FOR SUSTAINABLE DEVELOPMENT TECHNOLOGY
Notes to Financial Statements (continued)

Year ended December 31, 2014

(Amounts in thousands of dollars unless otherwise noted)

4. Capital assets:

	SD Tech Fund	NextGen Biofuels Fund	2014 Total	2013 Total
Balance, beginning of year	\$155,407	\$60,070	\$215,477	\$283,541
Contributions received	2,175	-	2,175	-
Interest income and amortization of discounts (premiums) on bonds	1,498	774	2,272	2,959
Less amount recognized as revenue	(67,574)	(1,652)	(69,226)	(70,795)
Less investment fund management fees	(105)	(61)	(166)	(228)
	(67,679)	(1,713)	(69,392)	(71,023)
Balance, end of year	\$91,401	\$59,131	\$150,532	\$215,477

During the year, capital assets were acquired at an aggregate cost of \$534 (2013 - \$393).

Cost and accumulated amortization at December 31, 2013 amounted to \$2,455 and \$1,928 respectively.

	2014			2013
NextGen Biofuels Fund	Cost	Accumulated amortization	Net book value	Net book value
Computer hardware	\$6	\$6	\$-	\$1
Office furniture and equipment	33	33	-	2
Leasehold improvements	120	110	10	29
	\$159	\$149	\$10	\$32

Cost and accumulated amortization at December 31, 2013 amounted to \$159 and \$127 respectively.

CANADA FOUNDATION FOR SUSTAINABLE DEVELOPMENT TECHNOLOGY
Notes to Financial Statements (continued)

Year ended December 31, 2014

(Amounts in thousands of dollars unless otherwise noted)

5. 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 and operations of the Foundation, as defined in the Funding Agreements. The change in the deferred contributions balance is as follows.

	SD Tech Fund	NextGen BioFuels Fund	2014 Total	2013 Total
Balance, beginning of the year	\$155,407	\$60,070	\$215,477	\$283,541
Contributions received	2,175	-	2,175	-
Interest income and amortization of discounts (premiums) on bonds	1,498	774	2,272	2,959
Less amount recognized as revenue	(67,574)	(1,652)	(69,226)	(70,795)
Less investment fund management fees	(105)	(61)	(166)	(228)
	(67,679)	(1,713)	(69,392)	(71,023)
Balance, end of year	\$91,401	\$59,131	\$150,532	\$215,477

During the year, no other funding or donations were provided to the Foundation.

CANADA FOUNDATION FOR SUSTAINABLE DEVELOPMENT TECHNOLOGY

Notes to Financial Statements

Year ended December 31, 2014

(Amounts in thousands of dollars unless otherwise noted)

6. Allocation of expenses:

Salaries, benefits and travel expenses to be allocated.

	NextGen		2014	2013
	SD Tech Fund	BioFuels Fund		
Salaries and benefits	\$6,976	\$152	\$7,128	\$6,184
Travel	353	13	366	341
	\$7,329	\$165	\$7,494	\$6,525

Salaries, benefits and travel expenses have been allocated as follows:

	NextGen		2014	2013
	SD Tech Fund	BioFuels Fund		
Governance	\$630	\$-	\$630	\$527
Mandatory reporting	913	-	913	784
Project screening evaluation	2,350	148	2,498	2,285
Project contracting and monitoring	1,132	17	1,149	1,069
Infrastructure development and outreach	1,659	-	1,659	1,243
General and administration	645	-	645	617
	\$7,329	\$165	\$7,494	\$6,525

7. Capital management:

The Foundation defines capital as its deferred contributions related to expenses of future periods.

The Foundation's objectives in managing capital are to safeguard its ability to continue as a going concern and pursue its strategy of promoting sustainable development technology and next-generation renewable biofuels to eligible projects that meet the mandate and criteria of its funder, the Government of Canada, and benefits to other stakeholders. Management continually monitors the impact of changes in economic conditions on its investment portfolio and its funding commitments.

The Foundation is not subject to any externally imposed capital requirements and its overall strategy with respect to capital remains unchanged from the year ended December 31, 2013.

CANADA FOUNDATION FOR SUSTAINABLE DEVELOPMENT TECHNOLOGY

Notes to Financial Statements (continued)

Year ended December 31, 2014

(Amounts in thousands of dollars unless otherwise noted)

8. Commitments:

SD Tech Fund:

During the year, the Foundation awarded grants for a maximum amount of \$82 million (2013 - \$102 million). Total disbursements to eligible recipients during the fiscal year were \$56 million (2013 - \$59 million).

The Foundation also has commitments to lease office space as follows: 2015 - \$0.9 million; 2016 - \$0.8 million; 2017 - \$0.7 million; 2018 - \$0.6 million; 2019 - \$0.5 million; and thereafter \$0.9 million.

NextGen Biofuels Fund:

During the year, the Foundation did not award any grants from the NextGen Biofuels Fund (2013 - \$0.4 million). Total disbursements to eligible recipients during the fiscal year were \$0.6 million (2013 - \$0.2 million).

9. Statement of remeasurement gains and losses:

A statement of remeasurement gains and losses has not been included as it would not provide additional meaningful information.

SD Tech Fund and NextGen Biofuels Fund Grant Investment Portfolios as at December 31, 2013

SD Tech Fund™ Investment % Breakdown			
Rating	Current % Invested	Maximum Available	Available %
Other A	0.0%	20.0%	20.0%
Other AA	4.1%	70.0%	65.9%
Other AAA	0.0%	80.0%	80.0%
Government A	0.0%	No Limit	No Limit
Government AA	6.3%	No Limit	No Limit
Government AAA	12.9%	No Limit	No Limit
High Interest Investment Savings Accounts	28.3%	No Limit	No Limit
Money market securities	48.4%	No Limit	No Limit
Totals	100.0%		

NextGen Biofuels™ Fund Investment % Breakdown			
Rating	Current % Invested	Maximum Available	Available %
Other A	0.0%	20.0%	20.0%
Other AA	0.2%	70.0%	69.8%
Other AAA	0.0%	80.0%	80.0%
Government AA	0.0%	No Limit	No Limit
Government AAA	0.0%	No Limit	No Limit
High Interest Investment	43.6%	No Limit	No Limit
Money market securities	56.3%	No Limit	No Limit
Totals	100.0%		

People of SDTC

Board of Directors

SDTC is governed by a Board of Directors reflecting the broad interests of the public, private and academic sectors in Canada. It is composed of 15 Directors, seven of whom are appointed by the Government of Canada and eight of whom are appointed by Members of the Foundation. The Board has five committees: the Audit and Grant Investment Committee, the Corporate Governance Committee, the Human Resources Committee, the Project Review Committee—NextGen Biofuels Fund™, and the Project Review Committee—SD Tech Fund™.

Directors of the Board are subject to conflict of interest guidelines requiring them to declare potential conflicts of interest and refrain from participating in any discussions regarding matters that could give rise to a conflict of interest.

Name	Title	Committee
Jim Balsillie	Chairman, SDTC	Ex-Officio to all Committees
Ken Ogilvie	Environmental Policy Consultant	Vice-Chair, CGC
David Pollock	Financial and Administrative Coordinator, Citizens for Public Justice	Vice-Chair, CGC, PRC-S
John Bradlow	Partner, Penfund	HRC*, A&GIC
Michael J. Brown	President & CEO, Emergex Capital Partners	PRC-S
K. Ross Creelman	Managing Director, Marwood Ltd.	CGC, HRC
Daniel Gagnier	Chairman, International Institute for Sustainable Development	PRC-N*
Sarah Kavanagh	Corporate Director and Commissioner, Ontario Securities Commission	A&GIC
Ronald Koudys	President, Ron Koudys Landscape Architects	PRC-N
Jason Lee	President, Spry Consulting	PRC-S**, PRC-N
Gary Lunn	Former Minister of Natural Resources	CGC*, PRC-S
Juergen Puetter	President, Aeolis Wind Power Corp.; President, Blue Fuel Energy Corp.	HRC
Jacques Simoneau	President & CEO, Univalor	A&GIC*, PRC-N

* Chair ** Acting Chair

A&GIC: Audit and Grant Investment Committee

CGC: Corporate Governance Committee

HRC: Human Resources Committee

PRC-S: Project Review Committee –SD Tech Fund

PRC-N: Project Review Committee – NextGen Biofuels Fund

Member Council

The Members of the Foundation include 15 leaders who together provide an informed and representative perspective on, and contribution toward, the achievement of SDTC's mission and goals.

Name	Title
Carl Brothers, P. Eng.	President, Frontier Power Systems Inc.
James R. Burpee	President & CEO, Canadian Electricity Association
Johanne Gélinas	Partner, Raymond Chabot Grant Thornton's Strategy and Performance Consulting Group
D. Christine Hollstedt, RFP	Principle, Inspiring Leadership
Brenda Kenny	President & CEO, Canadian Energy Pipeline Association
James Knight	President, James W. Knight and Associates
David Runnalls	Senior Fellow, Sustainable Prosperity; Distinguished Fellow, Centre for International Governance Innovation
Andrew T.B. Stuart	President & CEO, Isowater Corp.
Katherine Trumper	Project Management Consultant
Joseph D. Wright	Independent Consultant

Investment Committee

Name	Title
Jane Pagel	Chair, Investment Committee; Acting President & CEO, SDTC *
Michel De Broux	Lawyer, past Vice-President, Investments and Management of Affiliates, Hydro-Québec Capitech Inc.
Michael J. Brown	President & CEO, Emergex Capital Partners
John A. Coburn	Managing Director, XPV Capital Corp.
Peter S. Crombie, MBA, CPA, CA, CF	Corporate Director
Jason Lee	President, Spry Consulting
Gary Lunn	Former Minister of Natural Resources
David Pollock	Financial and Administrative Coordinator, Citizens for Public Justice
Tom Sweeney	Managing Partner & CEO, Kai Capital Partners Pte. Ltd.
Henry Vehovec	President, Mindfirst Inc.
Christian Zabbal	Managing Director, Black Coral Capital
Rosemary Zigrossi	Director, Promontory Financial Group Canada ULC

* This role was filled by Vicky Sharpe until June, 2014.

Board of Directors' Compensation

Position	Stipend *
Chair of the Board	\$12,000
Vice Chair of the Board	\$9,000
Directors of the Board	\$5,000

* All Directors of the Board received a meeting fee of \$550 per meeting day. The Directors of the Board who sit on the SD Tech Investment and Project Review Committees received a meeting fee of \$1,500 per meeting day and those who sit on the NGBF Project Finance and Project Review Committees received \$2,000 per meeting day.

Senior Management Compensation

In accordance with the Funding Agreement, SDTC Senior Management and Directors' compensation for the fiscal year ending December 31, 2014, including salary, bonus, allowances and other benefits was within the annual compensation ranges listed below.

Position	Total Annual Compensation	Additional Performance-based Compensation
President & CEO*	\$285,000–\$375,000	\$0–\$70,000
Vice Presidents	\$155,000–\$209,000	\$0–\$16,000
Senior Professionals	\$100,000–\$153,000	\$0–\$12,500

* This role was filled by Vicky Sharpe until June, 2014.