Financial Statements of

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Years ended March 31, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

To the Members of the
Michael Smith Foundation for Health Research

We have audited the accompanying financial statements of Michael Smith Foundation for Health Research**,** which comprise the statements of financial position as at March 31, 2013, March 31, 2012 and April 1, 2011**,** the statements of operations and cash flows for the years ended March 31, 2013 and March 31, 2012, 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 accounting standards for not-for-profit organizations, 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 Michael Smith Foundation for Health Research as at March 31, 2013, March 31, 2012 and April 1, 2011 and its results of operations and its cash flows for the years ended March 31, 2013 and March 31, 2012 in accordance with Canadian accounting standards for not-for-profit organizations.

Report on Other Legal and Regulatory Requirements

As required by the Society Act (British Columbia), we report that, in our opinion, the accounting principles in the Canadian accounting standards for not-for-profit organizations have been applied on a consistent basis.

KPMG LLP

Chartered Accountants

June 28, 2013

Burnaby, Canada

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Statements of Financial Position

		March 31, 2013		March 31, 2012		April 1, 2011
Assets						
Current assets:						
Cash	$	939,320	$	4,736,894	$	2,186,712
Contributions and other amounts receivable		22,964,378		24,250,360		5,063,166
Short-term investments (note 4)		58,557,724		31,267,018		50,184,300
Prepaid expenses and deposits		92,462		104,209		139,383
		82,553,884		60,358,481		57,573,561
Long-term investments (note 4)		2,905,309		2,665,271		2,704,449
Capital assets (note 5)		56,332		97,164		159,258
	$	85,515,525	$	63,120,916	$	60,437,268
Liabilities and Net Assets						
Current liabilities:						
Accounts payable and accrued Liabilities (note 7)	$	532,820	$	932,921	$	770,644
Grants payable		16,742		108,922		227,296
		549,562		1,041,843		997,940
Deferred contributions (note 6):						
Contributions for expenses of future periods		66,576,146		44,202,143		31,832,768
Capital contributions		56,332		97,164		159,258
Sponsored projects		16,066,946		15,513,227		25,180,763
		82,699,424		59,812,534		57,172,789
Net assets:						
Restricted for endowment purposes		2,266,539		2,266,539		2,266,539
Commitments (note 8)						
	$	85,515,525	$	63,120,916	$	60,437,268

See accompanying notes to financial statements.

Approved on behalf of the Foundation:

_______________ Director _______________ Director

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH
Statements of Operations

Years ended March 31, 2013 and 2012

	2013	2012
Revenue:		
Contributions recognized in current year (note 6(a))	$ 16,608,640	$ 19,833,450
Amortization of deferred capital contributions (note 6(b))	73,300	122,969
Contributions recognized in current year – sponsored projects (note 6(c))	3,646,281	2,687,771
Other	566,261	444,443
	20,894,482	23,088,633
Expenses:		
Programs and projects		
Career	8,269,038	9,355,322
Trainee	1,485,019	1,992,528
Research institutions and units	-	67,916
Research networks	642,305	2,485,000
Monitoring, evaluation, and learning system	1,351,681	610,049
Knowledge translation	421,458	171,114
Ethics harmonization	282,248	115,498
Other	155,333	294,367
Program development and delivery	728,570	1,253,602
Sponsored project expenses (note 6(c))	3,646,281	2,687,771
	16,981,933	19,033,167
Administration:		
General operating	3,839,249	3,932,497
Amortization of capital assets	73,300	122,969
	3,912,549	4,055,466
	20,894,482	23,088,633
Excess of revenue over expenses	$ -	$ -

See accompanying notes to financial statements.

MICHAEL SMITH FOUNDATION FOR HEALTH RESEARCH

Statements of Cash Flows

Years ended March 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Contributions from the Province of British Columbia		
Operations	$ 41,000,000	$ -
Sponsored projects	1,500,000	-
Contributions from others - sponsored projects	-	4,946,500
Grants and awards	(12,624,882)	(15,240,581)
Program development, delivery and administration	(4,982,721)	(5,059,890)
Sponsored project expenses	(3,648,099)	(2,654,998)
Other revenue	566,260	444,443
Investment revenue	2,171,227	1,108,098
Net cash provided by (used in) operating activities	23,981,785	(16,456,428)
Cash flows from investing activities:		
Purchase of investments	(183,788,587)	(16,450,152)
Proceeds from sale of investments	156,041,696	35,598,636
Purchase of capital assets (note 6(a))	(32,468)	(60,875)
Net cash provided by (used in) investing activities	(27,779,359)	19,087,609
Net increase (decrease) in cash	(3,797,574)	2,631,181
Cash, beginning of year	4,736,894	2,105,713
Cash, end of year	$ 939,320	$ 4,736,894

The Foundation uses the direct method in preparation of its statement of cash flows.

See accompanying notes to financial statements.

1. Nature of operations:

The Michael Smith Foundation for Health Research (the "Foundation") is incorporated under the Society Act (British Columbia) and is a registered charity under the Income Tax Act. Accordingly the Foundation is exempt from income and capital taxes and is able to issue donation receipts for income tax purposes.

The Foundation was established to create a vibrant and sustainable British Columbian health research environment that is recognized for excellence and:

- has the human resources, infrastructure and research space to compete effectively for national and international funding across all sectors;
- anticipates and responds to B.C. health and health system needs;
- builds the B.C. economy; and
- networks for critical mass across Western Canada, nationally and internationally.

The Foundation receives funding from the Province of British Columbia to conduct a range of peer-reviewed grant programs and other projects. In addition, the Foundation receives funding from other sources to undertake various projects consistent with its purpose.

2. Significant accounting policies:

(a) Basis of accounting:

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the Canadian Institute of Chartered Accountants (CICA) Handbook.

(b) Revenue recognition:

The Foundation follows the deferral method of accounting for contributions, including grants and donations from other sources.

Funding received from the Province of British Columbia, along with the future investment income, will be directed to the granting of funds to eligible recipients, the support of strategic initiatives and the payment of the Foundation's operating and capital expenditures. These restricted contributions, along with any additional related grants and the investment income thereon, are deferred and recognized as revenue in the year in which the related expenses are incurred by the Foundation. Restricted contributions used for the purchase of capital assets are deferred and amortized to revenue at a rate corresponding with the amortization rate for the related capital assets.

The Foundation also receives various other restricted contributions through sponsored project grants, contracts or matching contributions from other organizations that are deferred and recognized as revenue in the year in which the related expenses are incurred by the Foundation.

2. Significant accounting policies (continued):

(b) Revenue recognition (continued):

Endowment contributions are recorded as a direct increase in net assets. Realized and unrealized investment income earned on endowment investments is deferred and recognized as revenue in the year in which the related expenses are incurred by the Foundation.

Unrestricted contributions are recognized as revenue in the current period if the amount to be received can be reasonably estimated and collection is reasonably assured. Unrestricted investment income is recognized as revenue when earned.

(c) Capital assets:

Capital assets are recorded at cost less accumulated amortization. Repair and maintenance costs are charged to expense. Leasehold improvements are amortized on a straight-line basis over the lesser of the term of the lease or their estimated useful lives. Other capital assets are amortized on a straight-line basis over their estimated useful lives as follows:

Asset	Period
Computer software	1 year
Computer hardware	3 years
Office furniture	5 years
Office equipment	5 years

(d) Intangible assets:
Costs related to internally generated intangible assets during the development phase are recorded as an expense as they are incurred.

(e) Financial instruments:

Financial instruments are initially measured at fair value. Subsequently, equity instruments quoted in an active market are measured at fair value. Other instruments are subsequently measured at amortized cost unless elected to be measured at fair value.

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 straight-line method.

Financial assets measured at amortized cost are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Foundation determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Foundation expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

2. Significant accounting policies (continued):

(e) Financial instruments (continued):

The Foundation's financial instruments consist of cash, contributions and other amounts receivable, short and long term investments, accounts payable and accrued liabilities and grants payable.

Contributions and other amounts receivable

(i) Contributions and other amounts receivable are measured at amortized cost using the effective interest method and approximate their fair values due to the relatively short periods to maturity.

Investments

(i) Short-term investments - include any term deposits, guaranteed investment certificates, treasury bills, bankers' acceptances, income funds, bonds or equities, with a term to maturity of less than one year. Short-term investments are measured at fair value with subsequent changes to fair value recorded as changes in deferred contributions and recognized as revenues when the related expenses are incurred.

(ii) Long-term investments - include any term deposits, guaranteed investment certificates, treasury bills, bankers' acceptances, bonds, commercial paper and equities with a term to maturity of more than one year or that are related to permanent endowments. Long-term investments are measured at fair value with subsequent changes in fair value recorded as changes in deferred contributions and recognized as revenues when the related expenses are incurred.

Financial Liabilities

(i) Accounts payable, grants payable and accrued liabilities are measured at amortized cost using the effective interest method.

(f) Grants and awards:

Grants and awards approved by the Foundation are recorded as expenses in the fiscal year that the payment is to be made. Amounts are usually paid in quarterly installments in advance.

(g) Volunteer services:

The Foundation gratefully acknowledges the significant contribution it receives in the form of services from a large number of volunteer peer reviewers, committee members and task force participants. Such services, while essential to the Foundation's operations, are not recorded in these financial statements because of the difficulty of determining their fair value.

2. Significant accounting policies (continued):

(h) Lease inducement:

Cash payments received as lease inducements by the Foundation under the terms of the lease for office premises are being amortized to income through a reduction of rental expense over the term of the lease. The unamortized balance of nil (March 31, 2012 - $1,178; April 1, 2011 - $18,238) is included in accounts payable and accrued liabilities.

(i) Use of estimates:

The preparation of 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 reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(j) Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.

3. Adoption of the New Accounting Standards:

Effective April 1, 2012, the Foundation adopted the new Canadian accounting standards for not-for-profit organizations (“ASNPOs”) issued by the CICA. These financial statements are the first financial statements for which the Foundation has applied this financial reporting framework.

In accordance with Section 1501 of the CICA Handbook, “First-time adoption”, (“Section 1501”), the date of transition to ASNPOs is April 1, 2011 and the Foundation has presented an opening statement of financial position as at that date.

This opening statement of financial position is the starting point for the Foundation’s accounting under ASNPOs.

In its opening statement of financial position, under the recommendations of Section 1501, the Foundation:

- recognized assets and liabilities, as required by ASNPOs;
- applied ASNPOs in measuring all recognized assets and liabilities.

In accordance with the requirements of Section 1501, the accounting policies set out in note 2 have been consistently applied to all years presented.

3. Adoption of the New Accounting Standards (continued):

Key adjustments on the Foundation's financial statements resulting from the adoption of the new framework are as follows:

(a) Net assets - Restricted for endowment purposes:

The following table summarizes the impact of the transition to Not-for-profit standards on the Foundation's net assets as at April 1, 2011.

Net assets - Restricted for endowment purposes:	
As previously reported under Canadian generally accepted accounting principles for the year ended March 31, 2011	$ 2,562,549
Adjustments from adoption of new framework:	
Recognition of unrealized gains/losses as changes in deferred contributions rather than directly in net assets	(296,010)
Adjusted, April 1, 2011	$ 2,266,539

This adjustment resulted in a corresponding increase in deferred contributions for expenses in future periods.

(b) Statement of financial position:

As a result of the retrospective application of Not-for-Profit Standards, the Foundation recorded the following adjustments to the Statement of financial position as at April 1, 2011:

Deferred contributions for expenses of future periods:	
As previously reported under Canadian generally accepted accounting principles for the year ended March 31, 2011	$ 31,536,758
Adjustments from adoption of new framework:	
Recognition of unrealized gains/losses as changes in deferred contributions rather than directly in net assets	296,010
Adjusted, April 1, 2011	$ 31,832,768

As at March 31, 2012, the Foundation recorded a transitional adjustment to decrease deferred contributions for expenses of future periods and increase net assets – restricted for endowment purposes by $66,559 pertaining to unrealized gains/losses on endowment investments.

3. Adoption of the New Accounting Standards (continued):

(b) Statement of financial position (continued):

Capital assets:		
As previously reported under Canadian generally accepted accounting principles for the year ended March 31, 2011	$	308,133
Adjustments from adoption of new framework:		
The cost of internally developed intangibles is expensed under the new framework		(148,875)
Adjusted, April 1, 2011	$	159,258

This adjustment resulted in a corresponding decrease in deferred capital contributions.

(c) Statement of operations:

As a result of the retrospective application of Not-for-Profit Standards, the Foundation recorded the following adjustments to the Statement of operations for the year ending March 31, 2012:

Program development and delivery expenses:		
As previously reported under Canadian generally accepted accounting principles for the year ended March 31, 2011	$	1,008,408
Adjustments from adoption of new framework:		
The cost of internally developed intangibles is expensed under the new framework		245,194
Adjusted, March 31, 2012	$	1,253,602

This adjustment resulted in a corresponding increase in contributions recognized in current year.

4. Investments:

	March 31, 2013	March 31, 2012 Market value	April 1, 2011 Market value
Income funds and term deposits	$ 58,710,124	$ 32,860,320	$ 51,791,796
Equities	2,752,909	1,071,969	1,096,953
Total investments	61,463,033	33,932,289	52,888,749
Short-term	58,557,724	31,267,018	50,184,300
Long-term	$ 2,905,309	$ 2,665,271	$ 2,704,449

Investments in term deposits mature in fiscal 2014. Investments related to endowments are classified as long-term. Long-term investments also include any investments with maturities greater than a year from the date of acquisition.

5. Capital assets:

March 31, 2013	Cost	Accumulated amortization	Net book value
Computer software	$ 624,623	$ 620,710	$ 3,913
Computer hardware	411,029	388,807	22,222
Office furniture and equipment	562,711	532,514	30,197
Leasehold improvements	632,224	632,224	-
	$ 2,230,587	$ 2,174,255	$ 56,332

March 31, 2012	Cost	Accumulated amortization	Net book value
Computer software	$ 616,797	$ 594,535	$ 22,262
Computer hardware	390,716	367,470	23,246
Office furniture and equipment	624,359	579,711	44,648
Leasehold improvements	632,224	625,216	7,008
	$ 2,264,096	$ 2,166,932	$ 97,164

April 1, 2011	Cost	Accumulated amortization	Net book value
Computer software	$ 572,273	$ 571,323	$ 950
Computer hardware	382,381	323,049	59,332
Office furniture and equipment	616,715	564,265	52,450
Leasehold improvements	632,224	585,698	46,526
	$ 2,203,593	$ 2,044,335	$ 159,258

6. Deferred contributions:

Deferred contributions represent unspent grants or contract resources restricted for specific purposes and projects, and include expenses for operating as well as capital purposes.

(a) Deferred contributions relating to expenses of future periods:

	March 31, 2013	March 31, 2012	April 1, 2011
Balance, beginning of year	$ 44,202,143	$ 31,832,768	$ 29,913,668
Contributions received during the year:			
Grant from the Province of BC	37,000,000	24,000,000	20,000,000
Investment income	1,911,436	1,119,264	971,555
Amounts repurposed from sponsored projects (note 6(c))	-	7,026,265	-
	83,113,579	63,978,297	50,885,223
Amounts recognized as revenue during the period	(16,608,640)	(19,833,450)	(19,009,345)
Amounts applied toward capital assets purchased during the period	(32,468)	(60,875)	(39,174)
Adjustment to fair value of financial instruments	103,675	118,171	(3,936)
Balance, end of year	$ 66,576,146	$ 44,202,143	$ 31,832,768

During 2012, the Foundation received approval to repurpose certain funds related to the sponsored project funds for Health System Design and Management (note 6(c)). The funds were directed toward the other restricted purposes of the Foundation.

(b) Deferred contributions relating to capital assets:

	March 31, 2013	March 31, 2012	April 1, 2011
Balance, beginning of year	$ 97,164	$ 159,258	$ 349,366
Allocation of deferred contributions	32,468	60,875	39,174
Amounts amortized to revenue	(73,300)	(122,969)	(229,282)
Balance, end of year	$ 56,332	$ 97,164	$ 159,258

6. Deferred contributions (continued):

(c) Deferred contributions relating to sponsored projects with restricted funding:

	March 31, 2013	March 31, 2012	April 1, 2011
Balance, beginning of year	$ 15,513,227	$ 25,180,763	$ 22,390,805
Sponsored projects - Province of British Columbia			
- BC Healthy Living Alliance	-	-	38,065
- Cerebrospinal Venous Insufficiency	500,000	-	-
- Alzheimer's Disease Research	2,000,000	-	-
Sponsored projects - Other Organizations			
- Healthy Minds, Healthy People	1,000,000	46,500	-
- BC Influenza Vaccine Program	500,000	-	-
- BC Patient Safety & Quality Council	200,000	-	-
- Vancouver Island Research Capacity Building	-	-	4,900,000
	19,713,227	25,227,263	27,328,870
Amounts recognized as revenue	(3,646,281)	(2,687,771)	(2,148,107)
Amounts repurposed to other restricted purposes (note 5(a))	-	(7,026,265)	-
Balance, end of year	$ 16,066,946	$ 15,513,227	$ 25,180,763

The balance of deferred contributions for sponsored projects is comprised of the following:

	March 31, 2013	March 31, 2012	April 1, 2011
Health Services and Policy Research Support Network	$ 1,500,028	$ 2,200,661	$ 2,998,109
Children and Youth with Special Needs	1,339,168	1,339,288	1,339,418
BC Nursing Research Initiative	2,805,331	4,532,310	6,017,646
Human Papillomavirus	-	31,907	81,907
Immunization Program Evaluation	-	23,941	23,941
Health System Design and Management	-	-	7,238,675
Human Papillomavirus 2	1,777,173	2,514,945	2,581,067
Cerebrospinal Venous Insufficiency	500,000	-	-
Alzheimer's Disease Research	2,000,000	-	-
Healthy Minds, Healthy People	1,000,000	-	-
BC Influenza Vaccine Program	500,000	-	-
BC Patient Safety & Quality Council	200,000	-	-
Vancouver Island Research Capacity Building	4,445,246	4,870,175	4,900,000
	$ 16,066,946	$ 15,513,227	$ 25,180,763

7. Accounts payable and accrued liabilities:

Included in accounts payable are government remittances payable of $11,282 (March 31, 2012 - $33,156, April 1, 2011 - $40,185).

8. Commitments:

(a) Grant commitments:

Through a variety of targeted granting programs, the Foundation commits the majority of its funds to providing peer-reviewed research awards or strategic projects aimed at fulfilling the Foundation's mandate. Some of the commitments made through these granting programs and projects have terms that span more than one fiscal year. Such grants have on-going eligibility criteria and consequently, grant commitments are expensed in the period that the payment is to be made.

The following table summarizes grant commitments approved by the Foundation, by major grant program or project:

	Grant commitments for the years ending March 31		
	2014	2015 and thereafter	Total
Grant Program or Project:			
Career	$ 2,370,833	$ 37,500	$ 2,408,333
Trainee	496,808	-	496,808
Technology methodology platforms	700,000	116,667	816,667
Monitoring, evaluation, learning system	737,398	-	737,398
Knowledge translation	205,151	-	205,151
Ethics harmonization	166,750	-	166,750
Other	61,458	-	61,458
	$ 4,738,398	$ 154,167	$ 4,892,565

(b) Grant commitments - Sponsored projects:

Through a variety of specialized granting programs, the Foundation also may commit significant amounts of project funding to providing peer-reviewed research awards aimed at fulfilling each project's specific mandate. Some of the commitments made through these granting programs have terms that span more than one fiscal year. Such grants have on-going eligibility criteria and consequently, grant commitments are expensed in the period that the payment is to be made.

8. Commitments (continued):

(b) Grant commitments – Sponsored projects (continued):

The following table summarizes grant commitments approved by the Foundation, by each sponsored project:

	Grant commitments for the years ending March 31		
	2014	2015 and thereafter	Total
Externally funded projects:			
Health Services & Policy Research Support Network:			
- CIHR partnerships	$ 231,214	$ 64,825	$ 296,039
- Health Human Resources	281,250	-	281,250
Human Papillomavirus 2			
- Long-term vaccine evaluation	122,083	633,333	755,416
BC Nursing Research Initiative			
- Research Facilitator	556,094	-	556,094
- Nursing Health Services Research Network	250,000	125,000	375,000
- Research Project	453,394	62,385	515,779
- Commissioned Research	116,611	41,647	158,258
- Investigative Team	200,000	150,000	350,000
- Point-of-Care Initiative	299,800	-	299,800
Vancouver Island Capacity Building			
- Network Grant	29,231	-	29,231
	$ 2,539,677	$ 1,077,190	$ 3,616,867

(c) Office space and equipment lease commitments:

The Foundation rents office space under a long-term lease that expires October 31, 2016 and provides for an additional five-year extension at the option of the Foundation.

The Foundation also leases various types of office equipment.

The Foundation has future minimum lease payments under these operating leases as follows:

Years ending March 31:	
2014	$ 486,579
2015	482,082
2016	482,082
2017	281,214
	$ 1,731,957

9. Financial instruments:

The fair values of financial instruments carried at amortized cost approximate their carrying values due to their relative short-terms to maturity.

10. Financial risk management:

The Foundation is exposed to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

(a) Credit risk:

Credit risk is the risk of financial loss to the Foundation if a counterparty to a financial instrument fails to meet its contractual obligations. The Foundation’s investments in any term deposits, bonds, income funds and equities are subject to credit risk. The maximum exposure to credit risk on these instruments is their carrying value. The Foundation manages the risk by retaining professional investment counselors who act in accordance with the Foundation’s investment policies. These policies include asset mix guidelines and minimum investment grade levels for each asset class.

Other credit risks can arise from holding receivables. The Foundation has minimal accounts receivable, other than from government and as such the credit risk is minimal.

(b) Liquidity risk:

Liquidity risk is the risk that the Foundation will not be able to meet its financial obligations as they fall due. The majority of the Foundation's assets are held as short term investments that can be readily liquidated and therefore the Foundation's liquidity risk is considered minimal. In addition, the Foundation aims to retain a sufficient cash position to manage liquidity.

(c) Market risk:

Market risk is the risk that changes in market prices, as a result of changes in foreign exchange rates, interest rates and equity prices, will affect the Foundation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while earning an acceptable return.

(i) Currency risk:

Investments in foreign securities are exposed to currency risk due to fluctuations in foreign exchange rates.

The Foundation holds minimal investments in foreign currencies as such the risk is minimal.

10. Financial risk management (continued):

(c) Market risk (continued):

(ii) Interest rate risk:

Interest rate risk relates to the risk that changes in interest rates will affect the fair value or future cash flows of financial instruments held by the Foundation. The Foundation is invested in term deposits and income funds that may be impacted by changes in the market interest rate.

The Foundation manages interest rate risk on term deposits by choosing instruments that have fixed rates of return and terms that will match the projected cash flow requirements. Interest rate risk on income funds is managed through professional investment counselors, by holding instruments which have a high liquidity in the marketplace or by choosing instruments with fixed terms that align with projected cash flow requirements.