



ANNUAL REPORT TO THE MINISTER

Industry Canada

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1.0 Introduction

CANARIE's Funding Agreement with Industry Canada, requires the organization to "...provide to the Minister by July 31st of each year, commencing in 2008, an Annual Report approved by its Board, in both official languages, of its operations during the preceding fiscal year in respect of funding under this Agreement." This report addresses those requirements. The financial statements for 2008-09 are attached as Appendix 8.

CANARIE is Canada's advanced research and innovation network, a modern infrastructure required to support a healthy innovation system. It continues to be a foundational aspect and enabler of the Government of Canada's S&T strategy "Mobilizing Science and Technology to Canada's Advantage", released in 2007. CANARIE also addresses and supports, directly and indirectly, many of the R&D sub-priorities recently identified by the Science, Technology and Innovation Council in the "State of the Nation 2008". CANARIE continues to support and collaborate with the Canada Foundation for Innovation, the Tri-Councils, and our co-delivery agents at the provincial and territorial level.

CANARIE delivers cost-effective, ultra high-speed advanced networking technologies that connect more than 39,000 researchers at nearly 200 Canadian universities and colleges as well as thousands of researchers at numerous federal government departments across the country, enabling them to collaborate on leading-edge research in Canada and around the world.

2008-09 has been a very successful year for CANARIE as it addresses the growing need for its programs and access to its infrastructure. Initiatives such as the Network-Enabled Platforms Program and the Infrastructure Extension Program are catalysts to innovation offering the opportunity for greater collaboration between the private sector, universities and colleges and all levels of government. CANARIE has met or exceeded all objectives for the 2008-09 fiscal year.

In an effort to lead Canada's ICT sector in reducing greenhouse gas emissions, CANARIE announced its intention to invest \$3 million in a Green IT pilot program. This groundbreaking initiative aims to make more extensive use of network services as one of the foundational elements of cyber infrastructure architecture to support a zero-carbon economy in Canada.

During the past year, CANARIE developed the 2009-10 Business Plan, created a Senior Steering Committee for the second round of the Network-Enabled Platforms Program, and held a second Users Forum. Throughout the year CANARIE continued to benefit from the staunch support and commitment of the members of the Board of Directors.

On behalf of the Board of Directors, CANARIE would like to take this opportunity to thank the Minister of Industry Canada, his staff and the officials of his department, and others throughout

the Government of Canada for the continued support and the confidence shown in CANARIE over this past year.

2.0 Statement of Objectives for 2008-09 and report on the extent to which CANARIE met these objectives

CANARIE's 2008-09 Business Plan objectives were as stated below. A report on the extent to which each objective was achieved is contained in the paragraphs following each objective.

2008-09 Objectives:

- A. To acquire any additional or replacement equipment or network capacity needed for the effective management of the core network facility;**

Network Optical Layer standardized

CANARIE finalized the optical layer standardization and upgrade by replacing the previous generation of the CISCO ONS platform to the Nortel OME6500 platform. The standardization and upgrade to a single platform across the country creates operational efficiencies and enables CANARIE to harmonize the service offering across the 10 provinces.

Network IP Layer modernized

CANARIE undertook the router modernization project approved by its Board of Directors in January 2009. The project was completed in June 2009. Old routers to be replaced are located in Halifax, Montreal, Toronto, Winnipeg and Calgary.

CANARIE chose to standardize to the Juniper MX-480 switch routing platform as it was the most cost-efficient means of achieving a superior technical solution and providing strong support for the CANARIE Network IP routing needs.

PEI gets a broadband boost

CANARIE installed new equipment at the University of Prince Edward Island, creating a Point of Presence (PoP) which makes it easier for labs, faculty and students to connect directly to the CANARIE Network.

Fibre optic link for Newfoundland and Labrador

Newfoundland and Labrador have a stronger connection to research and educational institutions across the country via an increased national multi-gigabit network launched in September 2008, with support from CANARIE. The fibre link – part of the CANARIE

backbone – supports government researchers and other organizations in providing real-time weather forecasting to Canadians. Increased access to the national network has put Newfoundland and Labrador on an equal footing with other provinces that have high-speed research grids.

The Lightpath Program

The Lightpath Program is an open-ended program through which researchers can request and obtain dedicated CANARIE network infrastructure resources to build their own networks. As of March 2009, 49 lightpaths were in operation over the CANARIE Network infrastructure. Currently two of the Network-Enabled Platforms projects are using lightpaths and efforts will be made to provide lightpath capability to other projects in the coming year.

ROADM Expansions and Modifications

In an effort to optimize operations and leverage economies of scale, CANARIE has moved towards placing equipment in provincial ORAN or university co-locations wherever possible. This practice enables CANARIE to work more closely with the ORANs or university personnel in providing any required network maintenance which results in lower maintenance costs and expedited service.

The eastern ROADM nodes in Montreal and Ottawa were redesigned to make the ROADM network more flexible, and wavelengths easier to manage and upgrade. The added flexibility will enable remote switching of the wavelengths in Ottawa and Montreal. The wavelength switching upgrade will unleash the full potential of the ROADM network providing CANARIE with an improved response to user requests.

Finally, an additional wavelength was provisioned on the Western ROADM from Calgary to Vancouver. The new wavelength provides the WestGrid HPC (High Performance Computing) consortium with a lightpath to carry computations on a larger scale than was possible before.

B. To manage the “Infrastructure Extension Program” initiated in 2007 and design, implement and manage a follow-on program if required;

In 2008-09, CANARIE committed to supporting nearly 50 connections to federal departments, government labs and one private sector company (CAE Inc. in Montreal) via the \$15 million Infrastructure Extensions Program. As a result, dozens of labs and institutions will be able to continue to leverage the capacity of Canada’s advanced research and innovation network.

C. To manage the “Network-Enabled Platforms Program” initiated in 2007 and design, implement and manage a follow-on program if required;

This \$15 million program further develops CANARIE’s advanced network for Canadian researchers and scientists by enabling network-based technology innovation. It supports the development of tools and infrastructure to enable the sharing of complex data sets, the use of remote equipment and the capabilities of collaborative research teams. Ten projects were announced in June 2008.

The program teams met for the program’s first Technical Workshop: Awakening! in 2008. Each team presented its project goals and software architecture to other Network-Enabled Platforms Program participants. Continued progress on the Program is being made and measured through close monitoring by CANARIE staff and through regular reporting by the ten teams.

CANARIE announced a second Network-Enabled Platforms Program competition in February 2009 worth \$12 million.

D. To hold an annual Users Forum;

CANARIE held its second annual Users Forum in November 2008. Approximately 60 representatives of user communities attended, including several from research institutions, federal labs, co-delivery agents, and industry. The forum provided a valuable opportunity for stakeholders to provide feedback on how their networking needs are expected to evolve over the short, medium and longer-term. This information was used to refine the parameters of the second Network-Enabled Platforms Program.

E. To continue to work with the ORANs regarding the ways in which they can address and extend their role as “co-deliverer” of parts of the CANARIE mandate;

The Optical Regional Advanced Network (ORAN) Infrastructure Program launched earlier this year, provides funding support to CANARIE’s ORAN partners to further develop their research network capabilities. CANARIE will be providing \$15 million in support for ORAN infrastructure projects which should be selected and announced in fiscal year 2009-10. In addition to three ORAN Advisory Committee meetings multiple one-on-one discussions with individual ORANs have occurred over the year in order to improve the synergy between the national backbone and the regional research networks.

F. To engage the Board, through quarterly meetings held in various locations in Canada, in strategic decision-making and in the governance of the organization;

The 2008 Annual General Meeting of members and a meeting of the Board of Directors were held in Victoria in June 2008. Other Board of Directors meetings during the 2008-09 fiscal year were held in Montreal, Calgary, and twice in Ottawa.

CANARIE prepared and circulated a policy manual for the Board of Directors to assist them in good governance matters.

The CANARIE Board of Directors examined the Board's responsibilities, operation, effectiveness, compliance, and practices and established a baseline to measure improvements. As a result of a survey, the Board called for the creation of an ad hoc committee on governance, and an expert was brought in to give the Board a presentation on governance and best practices.

The Board's Annual Retreat in January 2009 focused on the strategic issue of the organization's mandate and the steps required to develop the framework for CANARIE's next mandate post 2012.

G. To produce communications products that will demonstrate the value of network based research to Canadians;

There were several demonstrations of the value of the CANARIE network throughout the year. A group of Grade 7 students from Argyle School in Regina, SK remotely controlled a camera located almost a hundred metres below the surface of the Pacific Ocean, using the CANARIE Network. The event was broadcast via video conference during CANARIE's Annual General Meeting in Victoria.

CANARIE is a key contributor to the High Performance Digital Media Network (HPDMnet), an international consortium investigating new methods for streaming high-resolution digital media from any source, including cameras, servers, scientific instruments and data repositories. CANARIE and the International Center for Advanced Internet Research (iCAIR) organized three HPDMnet demos this past year.

CANARIE provided one of 12 international 10 Gbps lightpaths at the international conference, Supercomputing 2008, as part of a demonstration that set new world records for the sustained transfer of large distributed datasets, including real-time simulations of earthquakes, time-domain astronomy with Google Sky and data analysis for the world's largest and highest-energy particle accelerator (the Large Hadron Collider) at the CERN lab in Switzerland.

CANARIE and its ORAN partner, ORION, held a National Summit entitled "Powering Research and Innovation" in November 2008. There, nearly 250 research and business leaders from across Canada converged on Toronto to explore the impact and potential of next-generation innovation and "jobs of the future".

The CANARIE Times newsletter was published in June 2008; the Annual Report 2007-08 (Unleashing the potential of science and technology) was released in June 2008; and 13 news releases announcing such things as upgrades to network equipment and capacity and

calls for proposals for technology innovation and network extension programs were issued during the year.

Finally, throughout the year CANARIE continued to reach out to audiences through sponsorship and active participation in numerous international, national and regional research symposia and conferences.

H. To ensure that CANARIE is managed efficiently, effectively, and with full accountability and transparency to Industry Canada and in keeping with the requirements of the Funding Agreement.

During the 2008-09 fiscal year, CANARIE submitted the following documents to Industry Canada: Annual Business Plan 2009-10; Annual Performance Report for 2008-09; and the 2008 Annual Report to the Minister that was included as part of the corporate annual report.

A Compliance Audit was successfully completed during the year and a Management Action Plan was developed and put into place to address a few minor discrepancies noted in the Audit.

I. Green IT Initiative

Beyond the objectives stated in the business plan, CANARIE's Board of Directors approved a "Green" Information Technology pilot program in January 2009. This program helped to establish CANARIE as a global leader in exploring the use of optical networks to reduce greenhouse gas emissions. CANARIE announced its intention to invest \$3 million to demonstrate the technological feasibility and business advantages of an internationally distributed zero-carbon cyber infrastructure to be located largely in Canada.

A workshop was held on March 4, 2009 in Ottawa to define objectives, provide details and determine a process to identify partners and contributions to the project. The Pilot Program is expected to get underway during the 2009-10 fiscal year.

3.0 Statement of Objectives for 2009-10 and for the foreseeable future

CANARIE's objectives for 2009-10 and beyond are as follows:

The objectives for 2009-10 and the remaining two years of the Funding Agreement period were first listed in the July 2008 Report to the Minister as:

- To acquire any additional or replacement equipment or network capacity needed for the effective management of the core network facility;

- To manage the “Infrastructure Extension Program” initiated in 2007 and design, implement and manage a follow-on program if required;
- To manage the “Network-Enabled Platforms Program” initiated in 2007 and design, implement and manage a follow-on program if required;
- To hold an annual *Users Forum*;
- To continue to work with the ORANs regarding the ways in which they can address and extend their role as “co-deliverer” of parts of the CANARIE mandate;
- To engage the Board, through quarterly meetings held in various locations in Canada, in strategic decision-making and in the governance of the organization;
- To produce communications products that will demonstrate the value of network-based research to Canadians; and
- To ensure that CANARIE is managed efficiently, effectively, and with full accountability and transparency to Industry Canada and in keeping with the requirements of the Funding Agreement.

In addition to the original objectives submitted as part of the business plan, CANARIE will launch and manage a Green IT Pilot program.

4.0 Statement of CANARIE's investment policies, standards, and procedures

CANARIE’s investment *strategy* is specifically tailored to the short duration of most investments and constraints in terms of investment options imposed by the Statement of Investment Policy and the Funding Agreement with Industry Canada. These constraints, while appropriate and necessary to meet the overall objectives of CANARIE, preclude a more active approach to investment management.

As a result, rather than taking a more active approach to investment management, the strategy adopted by CANARIE is “buy and hold”, based on the following framework.

- Investment maturities will, wherever possible, match the forecasted cash requirements of CANARIE.
- The quantitative limits on investment holdings provide ample structural liquidity to meet the needs of CANARIE. It is appropriate, therefore, to hold less liquid types of approved investments. Value added will be achieved by moving out the “liquidity curve” when possible.
- At all times CANARIE will hold investments deemed eligible under our *Statement of Investment Policy* (see Appendix 1). For greater clarity, the determination of eligibility shall be made at the time of purchase. CANARIE will not be obliged to dispose of investments which become ineligible after the date of purchase, but will favour (subject

to market conditions) disposing of such securities should assets need to be liquidated. (Refer to the Liquidity policy (s 7) in the Statement of Investment Policy.)

Within this context, CANARIE's official *Statement of Investment Policy* as adopted by the Board of Directors, and reviewed in the year by the Audit & Investment Committee of the Board, is contained in Appendix 1.

5.0 Statement of Compensation

Directors on CANARIE's Board, including officer positions such as Chair, Vice-Chair and Treasurer, receive no compensation. The President and CEO has a compensation package that is benchmarked regularly against external comparators by an external consultant and overseen by the HR Committee of the Board. All other staff positions at CANARIE are classified according to a structured system that assigns a salary range to each position. The system is benchmarked against comparator organizations regularly by an external consultant.

The 2008-09 salary ranges for positions above \$100,000 and the number of staff in each category follows:

	Lower salary range	Upper salary range	Number of Staff
President and CEO	\$163,860	\$273,099	1
Senior Management	\$111,424	\$185,707	3
Senior Management	\$ 77,393	\$128,989	1
Engineers	\$ 77,393	\$128,989	2
Technology Specialist	\$ 64,533	\$107,556	1

6.0 List of Eligible Projects, the funding provided detailed by Expenditure type, and a description of progress achieved to date

6.1 Infrastructure Extension Program

The Infrastructure Extension Program (IEP) is a \$15 million program launched in September 2007. The purpose of the program is to support the creation of extensions to Canada's research and education network that will enhance/accelerate research, enable national and international collaboration, improve access to knowledge, and contribute to the development of cyber infrastructure and e-research in Canada. Specifically, connections of government laboratories, educational institutions and other facilities were to be supported. During the 2008-09 fiscal year, 45 connections were either established, or renewed for a total of 47. The specifics of the program are detailed in the table below along with expenditures to March 31, 2009.

	Totals
Total Current Connections	47
Federal Department Connections	26
Government Laboratory Connections	17
Educational Institution Connections	3
Museum Connections	1
Invoiced & Paid 2007/08	\$2,920,160.82
Invoiced & Paid 2008/09	\$9,142,210.35
Total	\$12,062,371.17

6.2 Network-Enabled Platforms Program

The Network-Enabled Platforms Program (NEP) is a \$15 million program launched in September 2007. The purpose of the NEP Program is to encourage the definition and implementation of collaborative projects that accelerate the development of, and participate in, national and international cyber infrastructure and e-Research platforms. All projects are progressing towards their goals. Architectures and frameworks are being developed and executed with 95% of project expenditures going to Labour, Sub-contractor and Fee-for-Service contracts, 4% of expenditures going to demonstration and workshop costs and the remaining 1% on Equipment and Materials costs. All NEP projects were provided with funding during the 2008-09 fiscal year.

Project Number/Name	Lead Contractor	Project Commitment	Funding Provided to March 31, 2009
NEP 01 Science Studio	University of Western Ontario	\$ 1,700,102	\$ 570,101
NEP 02 Service Grid computing	University of Victoria	500,542	128,936
NEP 10 Oceans 2.0	University of Victoria	1,397,758	433,702
NEP 11 HSVO	Lakehead University	2,043,489	526,485
NEP 12 GeoChronos	Cybera Inc.	919,244	237,299
NEP 20 POKM	Dalhousie University	1,719,151	52,875
NEP 21 CSSDP	Cybera Inc.	1,123,586	243,363
NEP 34 CBRAIN	McGill University	2,400,529	235,991
NEP 39 CANFAR	University of Victoria	2,294,287	208,185
NEP 44 ONE ITS	University of Regina	721,658	39,978
	Total	\$ 14,820,347	\$ 2,676,915

6.3 ORAN Activity Support Program

The ORAN Activity Support Program (OASP) is a \$2.5 million program launched in February 2008. The purpose of the ORAN Activity Support Program is to provide funding support to facilitate the addition of staff or support operating costs of the regional networks in order to enable them to better serve CANARIE's objectives as defined in our Funding Agreement with Industry Canada. All projects are progressing towards the objectives of the program by the

focusing on CANARIE's technology innovation and/or network operations mandates and were provided with funding during the 2008-09 fiscal year.

Project Number/Name	Lead Contractor	Budget	Funding Provided to March 31, 2009
OR-01	BCnet	\$ 200,000	\$ 18,525
OR-02	Cybera	200,000	50,000
OR-03	SRnet	200,000	50,000
OR-04	MRnet	200,000	44,430
OR-05	ORANO	200,000	50,000
OR-06	RISQ	200,000	50,000
OR-07	NB-PEI	300,000	15,049
OR-09	ACORN NS	200,000	48,502
OR-10	ACORN NL	200,000	32,471
OR-11	Yukon	200,000	0
	Total	\$ 2,100,000	\$ 358,977

6.4 ORAN Communications Program

The ORAN Communications Program (OCP) is a \$250,000 program launched in February 2008. The purpose of the ORAN Communications Program is to provide funding for communications initiatives that demonstrate the value of national and regional partnerships in the provision of advanced networks, networking technologies and the applications and services for which they are used. The table details the projects that have utilized OCP funds for communications initiatives during the 2008-09 fiscal year.

Project Number/Name	Lead Contractor	Budget	Funding Provided to March 31, 2009
OR-01	BCnet	\$ 30,400	\$ 20,700
OR-02	Cybera	34,900	12,450
OR-03	SRnet	21,000	11,000
OR-04	MRnet	20,000	0
OR-05	ORANO	33,300	25,800
OR-06	RISQ	26,600	7,500
OR-07	NB-PEI	25,000	0
OR-09	ACORN NS	20,900	4,297
OR-10	ACORN NL	18,600	3,162
OR-11	Yukon	800	0
	Total	\$ 231,500	\$ 84,908

6.5 Network-Enabled Platforms v2 Program

The Network-Enabled Platforms v2 Program (NEP-2) is a \$12 million program launched in February 2009. The purpose of the Program is to encourage the definition and implementation of collaborative projects that will accelerate the development of, and participation in, national and international cyber infrastructure and e-Research platforms. Projects will be selected and funding will begin during the 2009-10 fiscal year.

6.6 ORAN Infrastructure Program

The ORAN Infrastructure Program (OIP) is a \$15 million program launched in March 2009. The purpose of the Program is to provide funding support to the ORANs to further develop their research network capabilities. Projects will be selected and funding will begin during the 2009-10 fiscal year.

7.0 Criteria applied to select Eligible Projects

The published criteria used to select the projects under the five programs detailed above are provided in Appendices 2-7.

8.0 Summary of the results of audits and evaluations carried out during the year

The Treasury Board Submission associated with the provision of a \$120,000,000 grant to CANARIE to enhance and extend the technical capabilities of the next generation of the CANARIE Network required that a compliance audit covering the fiscal year April 1, 2007 to March 31, 2008 be conducted by June 30, 2008. In December 2007 the Information and Communications Technologies (ICT) Branch contracted with George Teather of Performance Management Network (PMN) to conduct a compliance audit of the CANARIE Funding Agreement.

An Audit Plan was developed which identified the requirements in the Funding Agreement and the methods to be used to determine CANARIE's compliance with each requirement that was to be met during the fiscal year April 1, 2007 to March 31, 2008. The audit followed the approach described in the Audit Plan, supplemented by discussions with CANARIE's Chief Financial Officer and the staff from the investment advisor firm managing the CANARIE investment portfolio for the Funds.

CANARIE received the Compliance Audit Summary Report prepared by Mr. George Teather of Performance Management Network Inc., and submitted a response, including a management action plan, to Industry Canada in August 2008. PMN had indicated that the vast majority of the requirements in the Funding Agreement had been met by CANARIE, although a few minor

discrepancies were noted. Measures to remedy these shortcomings were identified in the Management Action Plan and were implemented during the current fiscal year. The areas addressed included: (i) the composition of the Audit and Investment Committee; (ii) the contribution by Eligible Recipients to their projects; and (iii) the acknowledgement of federal government support.

Appendix 1: Statement of Investment Policy

Purpose

The purpose of this document is to establish an investment policy best suited to meet the needs and objectives of CANARIE's CANet 5 investment portfolio. This document is specifically intended to meet the requirements of ss 5.3, 5.4, 5.7, 5.8, 5.9, 5.10, and 5.11 of the Funding Agreement between CANARIE Inc. and Her Majesty in Right of Canada dated March 28th, 2007.

All aspects of this Policy are governed by the Prudent Person Principle (refer s 5.1 of the Funding Agreement) and the principal objective of investment decisions shall be the preservation of capital to meet future disbursement requirements.

This policy was reviewed and approved on November 10, 2008.

Investment Policy

(1) Long-term return objectives and expectations:

The long term objectives of the portfolio are twofold: (a) to provide funds on an "as needed" basis to meet the disbursement needs of CANARIE and (b) to maximize the investment income earned by CANARIE, subject to the Investment Strategy and Investment Policy adopted by CANARIE.

(2) Ratings of Securities:

The deemed rating (the "Rating") of any Eligible Security will be established, at the time of CANARIE's acquisition of the Eligible Security.

Reference to the "issuer" shall include the unconditional guarantor, if applicable.

The rating category for Investment Policy purposes shall be based on the ratings of at least two of the following four rating agencies: Dominion Bond Rating Service (DBRS), Standard and Poors (S&P), Moody's and Fitch.

In the case of Commercial Paper and other short-term investments:

To be included in the AAA category, the security must have at least two of the following, where two are available:

- i. R-1 (high) from DBRS

- ii. A-1+ from S&P and the issuer's bonds are rated "AAA" by S&P
- iii. P-1 from Moody's and the issuer's bonds are rated Aaa by Moody's
- iv. F-1+ from Fitch and the issuer's bonds are rated AAA by Fitch

To be included in the AA category, the security must have at least two of the following, where two are available:

- i. R-1 (middle) from DBRS
- ii. A-1+ from S&P
- iii. F-1+ from Fitch
- iv. P-1 from Moody's and the issuer's bonds are rated Aa by Moody's

In the case of bonds and other longer term investments:

To be included in the AAA category, the security must have at least two of the following:

- i. AAA from DBRS
- ii. AAA from S&P
- iii. Aaa from Moody's
- iv. AAA from Fitch

To be included in the AA category, the security must have at least two of the following:

- i. AA from DBRS
- ii. AA from S&P
- iii. Aa from Moody's
- iv. AA from Fitch

(3) Diversification policy of the investment portfolio, including quantitative limits on investments:

Throughout the life of CANARIE's portfolio, CANARIE's investments in the securities of **any one issuer (or two or more affiliated entities)** will be limited to an aggregate market value limit based on the Rating of the security:

Rating of Security	AA	AAA
Government Securities	no limit	no limit
Provincial / Municipal Financing Authority	10% of portfolio	10% of portfolio
Municipal Securities	10% of portfolio	10% of portfolio
Other Eligible Securities	10% of portfolio	10% of portfolio

Throughout the life of CANARIE's portfolio, CANARIE's investment in the securities of **any one category** will be limited to an aggregate market value limit of the category, as set out below:

Rating of Security	AA	AAA
Government Securities *	30% of portfolio (minimum Government Securities is 20% of the portfolio)	no limit
Provincial / Municipal Financing Authority	70% of portfolio **	same 70%
Municipal Securities	70% of portfolio **	same 70%
Other Eligible Securities	70% of portfolio **	80% of portfolio

* For greater certainty, the phrase "Government Securities" means all securities issued, guaranteed by, or that have the full faith and credit of the federal government or a provincial government.

** The 70% constraint applies to the aggregate of AA securities

(4) Asset allocation strategy:

The portfolio will, at all times, be invested in Eligible Securities (refer (5) below).

(5) Permitted investment instruments and trading activities:

CANARIE shall invest in Eligible Securities. Eligible Securities are defined as banker's acceptances, bank certificates of deposit, commercial paper, bonds, notes and bills issued by the federal government, provincial governments, municipal governments and corporations, deposits at a deposit-taking institution, the commercial paper or short-term securities of which have a credit rating of at least AA, asset-backed securities, and collateralized mortgage obligations, with a maximum maturity date of March 2012. For greater certainty, CANARIE shall not invest in derivatives, swaps, options or futures.

Any securities acquired shall have a Rating of at least AA.

All securities will be denominated in Canadian dollars.

Investment transactions in Eligible Securities as defined in this Statement of Investment Policy, in amounts up to \$500,000 for up to 100 days, may be authorized by any two CANARIE Inc. signing officers, and in amounts greater than \$500,000 and up to \$120,000,000 for up to 365 days, may be authorized by the President and CEO and any one of the following two signing officers: the Treasurer or, the Chief Financial Officer. Investment transactions in all other authorized investments will require the approval of the Board's Audit and Investment Committee. The Board's Audit and Investment Committee will be advised of the transaction details by email or facsimile the same day that the transactions are authorized, or as soon as practical thereafter.

Shelly Lairar or Tom Gougeon, Investment Advisors/Managers, will have authorized power to recommend and execute all trades on behalf of CANARIE Inc. through BMO Nesbitt Burns Inc.. She/he will notify CANARIE Inc. and include all details of all confirmations of trades. The trades will be executed with the full knowledge of authorities as defined above.

(6) Prohibited investment instruments and trading activities:

Prohibited investments consist of all investments not defined as permitted investment instruments.

(7) Liquidity policy:

- (a) In cases where the timing of disbursements is unknown, investments shall be held in securities with term to maturity of one year or less.
- (b) Should an unexpected disbursement or series of disbursements made by CANARIE reduce the total market value of the portfolio, CANARIE shall immediately take the steps necessary to comply with the requirements set by the diversification policy (refer (3) above) within a period of 60 days from the date as of which CANARIE first failed to meet those requirements. Under no circumstances shall CANARIE materially fail to comply with the diversification requirements of section 3 for a period of more than 90 consecutive days.

(8) Risk management policies:

The purpose of CANARIE's investment portfolio is to earn investment income until such funds are needed to finance CANARIE objectives. The principal risks therefore are liquidity and capital preservation. Both risks, and steps taken to manage such risks, are specifically addressed in CANARIE's Statement of Investment Policy and Statement of Investment Strategy. In addition to the constraints contained in these documents, certain processes are in place to further manage these risks:

- On a weekly basis the Investment Advisor/Manager receives reports from CANARIE management regarding upcoming short term cash requirements. This is compared to the upcoming maturity schedule with corrective action, if any, being initiated.
- On an annual basis the Investment Advisor/Manager receives a long term projection of CANARIE liquidity requirements. This is compared to the long term maturity schedule. Based on the comparison of the two, corrective action, if any, is taken. Note that corrective action in this instance may be taken over an extended time period.
- On a quarterly basis the Investment Advisor/Manager reviews the credit ratings of all holdings. This is intended to act as an early warning as to potential, upcoming capital impairment issues.
- On a quarterly basis (or more frequently if necessary) the Investment Advisor/Manager reports to the Investment Committee on portfolio matters. Such matters include

diversification compliance and potential capital impairment situations and recommended corrective actions.

(9) Policy on the lending of cash or securities:

The lending of cash or securities is not permitted.

(10) Performance measurement and monitoring procedures:

Performance is measured first by the prime objective of safety of investment and, secondly, by the ability of the investment portfolio to have funds on hand to meet all expenditure requirements. After those considerations in importance comes performance measurement. This will be addressed in ongoing fashion in reporting on new investments and reinvestments in terms of their yield relative to the Canada Curve (the yield that would be achieved from a benchmark Government of Canada bond of similar duration). Less attention will be paid to annual comparisons with other bond managers, unless they operate under similar constraints.

(11) Review:

This Statement of Investment Policy shall be reviewed at least once a year.

Appendix 2: Infrastructure Extension Program Criteria

CANARIE will consider factors such as costing, research value, and synergy with other plans in deciding which facilities will be connected, especially where new fibre connections are to be installed. In the final analysis, CANARIE will be considering the degree to which each element of an extension plan contributes to the objectives defined in CANARIE's Funding Agreement with Industry Canada.

Where appropriate, proposals will be reviewed with ORAN engineering staff so as to identify synergies that can be obtained in terms of the network extension requirements of the ORANs.

Once proposals have been prioritized, CANARIE will issue one or more RFPs to carriers, fibre builders and other interested parties to determine costs and eventually to provide the necessary connectivity. The first preference will be for new fibre builds. If that is not cost effective or practical, then fibre purchase or managed service may be an alternate solution.

Because fibre construction and acquisition is a complex and lengthy process, it may take several months to finalize a list of facilities that will be connected. Right of way and building entrance issues may ultimately prohibit connectivity to a given facility.

Appendix 3: Network-Enabled Platforms Program Criteria

Projects approved for funding under the Network-Enabled Platforms Program are selected through a competitive process outlined below. All project proposals will be reviewed relative to two sets of criteria: mandatory and desirable. In the first EOI stage, evaluation of proposals relative to these two sets of criteria will constitute the basis for deciding whether or not an applicant is invited to submit a full Project Proposal and for the ultimate decision whether or not a project is to receive CANARIE funding. Projects that fail to meet the mandatory criteria, or fail to meet such criteria to an acceptable degree, cannot be funded.

The mandatory requirements that must be met by all Projects that are invited to the second round of review are:

- i. The project must be innovative;
- ii. The project must be based on a viable funding model;
- iii. The applicants must be capable of undertaking the project;
- iv. The project must lead to infrastructure or other results that will be ongoing after CANARIE funding terminates.
- v. The project must respond to specific user needs and bring together the required players to identify requirements, create the collaborations needed and undertake the specific development activity being proposed;
- vi. The lead applicant must be a Canadian corporation or other legally recognized Canadian entity;
- vii. The project must be technically sound and methodologically feasible;
- viii. The work envisaged by the project must be performed in Canada (i.e. funds cannot be allocated to foreign-located participants); and
- ix. CANARIE funding must be required to deliver the results of the project or to ensure the timeliness of the delivery.

Proposals submitted under CANARIE's Network-Enabled Platforms Program should also meet a significant number of desirable criteria to some substantial degree. The desirable criteria are:

- i. The project should address critical issues and challenges that are potentially national in scope, perspective and significance, whether these might arise "vertically" within a particular research field or whether they might arise "horizontally" across fields;
- ii. The project should involve several collaborators from institutions or facilities across Canada, or be part of an international collaboration;
- iii. The project participants should be committed to the project, for example as reflected in the contributions they are prepared to make to it;
- iv. The project should enable the integration and shared use of various instruments, databases and computational facilities;

- v. The project should involve significant data flows or place other significant demands on the underlying network infrastructure;
- vi. The applicants should be familiar with web services, grids, Web 2.0 and/or Service Oriented Architectures and the application of these to the integration and shared use of the resources that will constitute the platform;
- vii. The research field or community of interest relating to the proposed project should be a Canadian strength;
- viii. The project should provide benefits to other network-enabled platforms activities being undertaken by other disciplines or communities of interest.

Projects will be evaluated relative to the desirable criteria, CANARIE's objectives as defined in the Funding Agreement with Industry Canada, and the mandatory criteria defined above, where they admit to being satisfied to various degrees above a minimum threshold.

Appendix 4: ORAN Activity Support Program Criteria

Expenses outlined in the submitted ORAN Activity Support Program Proposal should address the objectives defined in CANARIE's Funding Agreement with Industry Canada. These objectives are enumerated as follows:

Network Operations: To continue to operate CANet as essential research infrastructure and to the extent resources permit,

- Expand the provision of advanced network capabilities to Canada's research and education community;
- Upgrade the capacity of the network in keeping with demand;
- Increase access to and use of the network by real and virtual organizations consistent with the network's Acceptable Use Policy (AUP); and
- Enhance Canada's involvement in international networking and networking-focused collaborations.

Technology Innovation: To develop, demonstrate and implement next generation technologies to advance CANet as a leading-edge research network, and to the extent resources permit,

- Develop service-oriented-architecture-based software interfaces and tools that facilitate flexible use of network resources;
- Develop service-oriented-architecture-based software interfaces, applications and tools that facilitate flexible and integrated use of distributed equipment and resources; and
- Reinforce Canada's position as a recognized leader in the development and use of advanced research networks.

CANARIE has defined "performance measurement indicators" (PMIs) that should be used to determine the success of the activities being undertaken with funding provided through this Program:

PMI-1: Network Operations (Connectivity)

- The number of new connected institutions, including the number of researchers and other users at each institution;
- The percentage increase in capacity of the network; and
- The percentage increase in use of the network.

PMI-2: Technology Innovation

- Examples of use of the network by researchers and educators who are world leaders in their fields; and
- Examples of next generation technologies, their use and value (economic, social, quality of life).

Appendix 5: ORAN Communications Program Criteria

Program Criteria identified for the ORAN Communications Program are as follows:

- i. The objectives of the communications activities should be to address the objectives defined in CANARIE's Funding Agreement with Industry Canada through: increasing awareness of the potential of advanced networking; encouraging collaboration; and demonstrating the value of advanced networking to researchers and institutions;
- ii. CANARIE should be involved in the design of and be a participant in the activities; and
- iii. Nominal awards should be in keeping with an award reference list approved by the Marketing and Communications Committee.

Regarding guideline (iii), currently the Committee has approved the following reference list:

- ORAN Annual Conference – up to one per year; up to \$7,500.
- Advanced Networking Days, in conjunction with a university, research institute or R&D lab – up to three per year; up to \$800 each.
- Survey of researchers – up to \$10,000 annually.
- Awareness and outreach activities that promote relationship to CANARIE's advanced network – up to \$7,500 annually.

In addition, special initiatives might be considered and dealt with by the Committee on an ad hoc basis.

CANARIE has defined “performance measurement indicators” (PMIs) that should be used to determine the success of the activities being undertaken with funding provided through this Program:

PMI-1: Network Operations (Connectivity)

- Increased recognition of the CANARIE brand and capabilities of the CANARIE network by ORAN members;
- User satisfaction with the capacity of and access to the network; and
- Marketing and educational activities directed to potential users.

PMI-2: Technology Innovation

- Number and quality of demonstrations utilizing the capabilities of the CANARIE network; and
- Increased collaboration at local, regional, national and international levels

ORANs, in consultation with CANARIE, may develop additional PMIs.

Appendix 6: Network-Enabled Platforms v2 Program Criteria

Projects approved for funding under the NEP-2 program will be selected through a competitive process outlined below. All project proposals will be reviewed relative to two sets of criteria: mandatory criteria and the ability to contribute to CANARIE's objectives as defined in the current funding agreement with Industry Canada. Evaluation of proposals relative to these two sets of criteria will constitute the basis for the decision whether or not a project is to receive CANARIE funding. Projects that fail to meet the mandatory criteria, or fail to meet such criteria to an acceptable degree, cannot be funded.

The **mandatory** requirements that must be met by all proposals are:

- i. The project must be innovative;
- ii. The project must be based on a viable funding model;
- iii. The applicants must be capable of undertaking the project;
- iv. The project must lead to infrastructure or other results that will be ongoing after CANARIE funding terminates.
- v. The project must respond to specific user needs and bring together the required players to identify requirements, create the collaborations needed and undertake the specific development activity being proposed;
- vi. The lead applicant must be a Canadian corporation or other legally recognized Canadian entity;
- vii. The project must be technically sound and methodologically feasible;
- viii. The work envisaged by the project must be performed in Canada (i.e. funds cannot be allocated to foreign-located participants);
- ix. CANARIE funding must be required to deliver the results of the project or to ensure the timeliness of the delivery; and
- x. The project MUST use the CANARIE Network.

Proposals submitted under CANARIE's NEP-2 program should also contribute to CANARIE's funding agreement objectives to some substantial degree. CANARIE's Technology Innovation objectives are:

- i. To develop, demonstrate and implement next generation technologies to advance CANARIE's Network as a leading-edge research network, and to the extent resources permit,
- ii. develop service-oriented-architecture-based software interfaces and tools that facilitate flexible use of network resources;
- iii. develop service-oriented-architecture-based software interfaces, applications and tools that facilitate flexible and integrated use of distributed equipment and resources; and
- iv. reinforce Canada's position as a recognized leader in the development and use of advanced research networks.

Projects will be evaluated relative to the above evaluative criteria, the complete objectives as defined in the Funding Agreement with Industry Canada, and the specific Technology Innovation objectives enumerated above.

Appendix 7: ORAN Infrastructure Program Criteria

Projects approved for funding under the ORAN Infrastructure (OIP) Program will be selected through a competitive process. All project proposals will be reviewed relative to the mandatory criteria, the evaluation criteria, and the ability to contribute to CANARIE's objectives as defined in the current funding agreement with Industry Canada. Evaluation of proposals relative to these criteria will constitute the basis for the decision whether or not a project is to receive CANARIE funding. Projects that fail to meet the criteria, or fail to meet such criteria to an acceptable degree, cannot be funded.

These are the criteria against which proposals to the OIP will be evaluated:

Mandatory Criteria required by CANARIE's Funding Agreement:

- i. The project must be based on a viable funding model;
- ii. The applicants must be capable of undertaking the project;
- iii. The project must lead to infrastructure or other results that will be ongoing after CANARIE funding terminates;
- iv. The lead applicant must be a Canadian corporation or other legally recognized Canadian entity;
- v. The project must be technically sound and methodologically feasible; and
- vi. CANARIE funding must be required to deliver the results of the project or to ensure the timeliness of the delivery.

Evaluation Criteria:

- i. What network-enabled application(s) will be enabled by the proposed infrastructure extension?
- ii. Clearly identify or demonstrate the demand for the connectivity.
- iii. Characterize the architectural or technical compatibility of the proposal with the Network.
- iv. What is the nature of the network service involved in the project?
- v. What is the cost of the project? (provide details)
- vi. What is the contribution to the project by the applicant and other organizations?
- vii. What is the contribution to the reliability, redundancy, and/or availability of the CANARIE Network?
- viii. How does this address the needs of the ORAN and/or the needs of their users?
- ix. How does this meet the goals and objectives of the ORAN as previously set out in the ORAN's strategic plan?

Projects will be evaluated relative to the above evaluative criteria, as well as the complete objectives as defined in the Funding Agreement with Industry Canada.

**CANARIE INC.
FINANCIAL STATEMENTS
MARCH 31, 2009**

CANARIE INC.
FINANCIAL STATEMENTS
MARCH 31, 2009

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AUDITORS' REPORT

To the Members of
CANARIE Inc.

We have audited the statement of financial position of CANARIE Inc. as at March 31, 2009 and the statements of changes in net assets, operations and cash flows for the year then ended. These financial statements are the responsibility of the organization'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 CANARIE Inc. as at March 31, 2009 and the results of its operations and the cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

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

KRIENS~LAROSE, LLP



**Chartered Accountants
Licensed Public Accountants**

Toronto, Canada
May 22, 2009

CANARIE INC.
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2009

Page 2

	2009 \$	2008 \$
ASSETS		
CURRENT		
Cash	1,667,464	840,918
Short term investments	35,790,223	30,557,463
Accounts receivable	65,871	19,071
CAnet 5 service contracts - short term	4,513,730	-
	42,037,288	31,417,452
CANET 5 SERVICE CONTRACTS - LONG TERM	9,024,060	-
LONG TERM INVESTMENT (Note 3)	575,000	575,000
CAPITAL ASSETS		
Operations (Note 4)	51,220	39,135
CAnet 4 (Note 5)	10,911,389	15,421,929
CAnet 5 (Note 6)	2,907,573	1,304,063
	65,506,530	48,757,579
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	2,801,618	373,260
Deferred funding CAnet 5 (Note 8)	43,227,294	27,214,512
	46,028,912	27,587,772
DEFERRED CAPITAL ASSET FUNDING CAnet 4 (Note 7)	10,911,389	15,421,929
DEFERRED CAPITAL ASSET FUNDING CAnet 5 (Note 8)	2,907,573	1,304,063
	59,847,874	44,313,764
NET ASSETS		
UNRESTRICTED	1,397,934	1,129,817
RESTRICTED ROYALTY FUND (Note 9)	1,975,987	1,041,348
RESTRICTED FOR WINDUP OF OPERATIONS (Note 9)	2,233,515	2,233,515
INVESTED IN CAPITAL ASSETS	51,220	39,135
	5,658,656	4,443,815
	65,506,530	48,757,579

Commitments (Note 10)

APPROVED ON BEHALF OF THE BOARD:

_____, Director _____, Director

See accompanying notes to the financial statements

CANARIE INC.
STATEMENT OF CHANGES IN NET ASSETS
 FOR THE YEAR ENDED MARCH 31, 2009

Page 3

	2009 \$	2008 \$
UNRESTRICTED NET ASSETS		
Balance, beginning of year	1,129,817	1,366,032
Excess of revenues over expenses for the year	1,214,841	926,918
Allocate to invested in capital assets	(12,085)	(21,785)
Investment income allocation to Royalty Fund	(47,747)	(220,667)
Transfer to Restricted Net Assets - Royalty Fund	(886,892)	(820,681)
Transfer to Restricted Net Assets - Windup of Operations	-	(100,000)
Balance, end of year	1,397,934	1,129,817

RESTRICTED NET ASSETS - ROYALTY FUND		
Balance, beginning of year	1,041,348	-
Transfer from unrestricted net assets	886,892	820,681
Investment income allocation to Royalty Fund	47,747	220,667
Balance, end of year	1,975,987	1,041,348

RESTRICTED NET ASSETS - WINDUP OF OPERATIONS		
Balance, beginning of year	2,233,515	2,133,515
Transfer from unrestricted net assets	-	100,000
Balance, end of year	2,233,515	2,233,515

INVESTED IN CAPITAL ASSETS		
Balance, beginning of year	39,135	17,350
Capital asset purchases	42,712	48,857
Deduct: amortization	(30,627)	(27,072)
Balance, end of year	51,220	39,135

See accompanying notes to the financial statements

CANARIE INC.
STATEMENT OF OPERATIONS
 FOR THE YEAR ENDED MARCH 31, 2009

Page 4

	2009 \$	2008 \$
REVENUES		
CAnet 5 funding (Note 8)	11,600,318	11,557,982
CAnet 4 funding (Note 7)	4,510,540	8,258,997
Royalties	886,892	820,681
Membership fees	205,000	212,500
Other (Schedule I)	261,330	(29,882)
	17,464,080	20,820,278
EXPENSES		
CAnet 5 (Schedule II)	11,600,318	11,557,982
CAnet 4 (Schedule III)	4,510,540	8,258,997
Operational expenses (Schedule IV)	138,381	76,381
	16,249,239	19,893,360
EXCESS OF REVENUES OVER EXPENSES FOR THE YEAR	1,214,841	926,918

See accompanying notes to the financial statements

CANARIE INC.
SCHEDULE TO STATEMENT OF OPERATIONS
 FOR THE YEAR ENDED MARCH 31, 2009

Page 5

	2009 \$	2008 \$
SCHEDULE I - OTHER INCOME		
Investment and other income	365,560	383,483
Unrealized loss on write down of long-term notes (Note 3)	-	(413,365)
Project expenses Compute Canada	(104,230)	-
	261,330	(29,882)
SCHEDULE II - CAnet 5		
Direct expenses	8,001,652	8,131,785
Operational expenses	2,946,283	3,104,536
Amortization	652,383	321,661
	11,600,318	11,557,982
SCHEDULE III - CAnet 4		
Amortization	4,510,540	7,456,895
Direct expenses	-	802,102
	4,510,540	8,258,997

See accompanying notes to the financial statements

CANARIE INC.
SCHEDULE TO STATEMENT OF OPERATIONS
 FOR THE YEAR ENDED MARCH 31, 2009

Page 6

	2009	2008
	\$	\$
SCHEDULE IV - OPERATIONAL EXPENSES		
Salaries and benefits	1,900,900	1,994,909
Office space	274,020	256,277
Subcontractors	234,679	204,022
Travel	188,675	243,363
Promotion	81,060	81,694
Conferences and committees	81,026	61,507
Telephone and network	65,528	55,447
Professional fees	59,045	60,753
Board meetings	44,376	59,087
Insurance	29,624	32,406
Equipment and maintenance	28,425	44,162
Translation and editing fees	21,468	18,637
Miscellaneous	13,861	16,419
Memberships	11,117	9,734
Staff training and development	6,975	2,799
Bank charges and interest	5,671	5,981
Postage and courier	4,438	3,760
Stationary and printing	3,149	2,888
Amortization	30,627	27,072
	3,084,664	3,180,917
Less: Allocated to projects		
CANet 5	2,946,283	3,104,536
	138,381	76,381

See accompanying notes to the financial statements

CANARIE INC.
STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED MARCH 31, 2009

Page 7

	2009 \$	2008 \$
CASH FROM OPERATING ACTIVITIES:		
CANet 5 funding	28,000,000	39,000,000
Royalties	886,892	820,681
Memberships	205,000	212,500
Investment income - operations	166,500	383,483
Investment income - programs	740,043	1,178,540
Operational expenses	(2,976,417)	(3,308,382)
Program expenses	(18,934,329)	(19,676,683)
Cash returned to Consolidated Revenue CANet 4 Fund	-	(340,391)
Cash returned to Consolidated Revenue Royalty Fund	-	(5,902,818)
	8,087,689	12,366,930
CASH FROM INVESTING ACTIVITIES		
Purchase of long-term investments	-	(988,365)
Purchase of capital assets	(42,712)	(48,857)
Purchase of CANet 5 capital assets	(2,272,461)	(1,625,724)
Proceeds from sale of CANet 4 capital assets	286,790	-
	(2,028,383)	(2,662,946)
Change in cash and short term investments	6,059,306	9,703,984
Cash and short term investments, beginning of year	31,398,381	21,694,397
Cash and short term investments, end of year	37,457,687	31,398,381
Cash and short term investments consist of the following:		
Cash	1,667,464	840,918
Short term investments	35,790,223	30,557,463
	37,457,687	31,398,381

See accompanying notes to the financial statements

1. PURPOSE OF THE ORGANIZATION

CANARIE Inc. was incorporated on March 5, 1993 as a non-profit organization without share capital under Part II of the Canadian Corporations Act. The objective of CANARIE Inc. is to support the development of the communications infrastructure for a knowledge-based Canada.

As a corporation constituted exclusively for the purpose of carrying on or promoting scientific research and experimental development, CANARIE Inc. is exempt from the payment of income taxes under Section 149(1)(J) of the Income Tax Act (Canada).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the organization are in accordance with Canadian generally accepted accounting principles and their basis of application are consistent with those of the previous year. Outlined below are those policies considered particularly significant.

Investments

Investments are classified as held-for-trading and recorded at fair value. Unrealized gains and losses on held-for-trading financial assets are included in excess of revenues over expenses in the period in which they arise.

Publicly traded securities are valued based on the latest bid prices. Transactions are recorded on a settlement date basis and transaction costs are expensed as incurred.

Investment income, which consists of interest and realized and unrealized gains and losses, is recorded as other income on the statement of operations.

Capital assets and amortization

Capital assets are stated at acquisition cost. Amortization is provided on a straight-line basis over the estimated useful life of the asset as follows:

Computer equipment	3 years
Equipment	5 years

Capital assets and amortization - CANet 4 and CANet 5

CANet 4 and CANet 5 network backbone operating equipment are stated at acquisition cost. Amortization is provided on a straight-line basis over the expected useful life of the asset to the organization. CANARIE Inc. is able to extend the maximum possible useful life to March 31, 2012.

Continued...

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Long lived assets

Capital assets are recorded at cost less accumulated amortization. If circumstances indicate that the carrying value may not be recoverable, recoverability is tested by comparing the sum of the estimated undiscounted future cash flows from operations and expected residual value with the carrying value. If the sum is less than the carrying value of a particular asset, an impairment loss is recognized. As at March 31, 2009 there were no known circumstances that would indicate that the carrying value of the capital assets may not be recoverable.

Deferred funding

Deferred funding relates to (1) funding received in advance of the funding period; (2) funding received for service contracts that extend into the future and (3) funding received with respect to the purchase of capital assets related to the project.

Revenue recognition

The organization follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Funding related to CANet 4 and CANet 5 capital assets is deferred and recognized as revenue in the same period as the amortization expenses related to the CANet 4 and CANet 5 capital assets.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

Donated property and services

During the year, voluntary services (including donated time and travel of board and committee members) were provided. Because these services are not normally purchased by the organization and because of the difficulty of determining their fair value, donated services are not recognized in these statements.

Continued...

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments

Other financial instruments include accounts receivable and accounts payable and accrued liabilities. These are initially recognized at fair value and subsequently recorded at amortized cost.

CANARIE Inc. was prepared to adopt Handbook Sections 3862 and 3863 which replace Handbook section 3861, Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirement, and carrying forward unchanged its presentation requirements.

CANARIE Inc. has elected to continue to apply Handbook Section 3861, Financial Instruments - Disclosure and Presentation, in these financial statements instead of Handbook Sections 3862 and 3863, as permitted under the transition rules for not-for-profit organizations in these new standards.

Future accounting issues

The Canadian Institute of Chartered Accountants (CICA) has issued a new accounting standard, Section 1535 Capital Disclosures, which requires the disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the organization's objectives, policies and processes for managing capital. This standard, which is applied to financial statements relating to fiscal years beginning on or after August 1, 2008, will only require additional disclosures in the financial statements.

The CICA has also issued revisions to the Section 4400 and certain other sections to amend or improve certain parts of the CICA Handbook that relate to not for profit organizations. With respect to presentations, these changes include making the disclosure of net assets invested in capital assets optional; making Section 1540 Cash Flow Statements applicable to not for profit organizations; and requiring the reporting of revenues and expenses on a gross basis in the statement of operations unless not required by other guidance.

Continued...

3. LONG TERM INVESTMENT

As at March 31, 2008, CANARIE Inc. held \$1,000,000 principal amount of third party Asset-Based Commercial Paper (ABCP). These investments were due to mature in August and September 2007; however, as a result of a disruption in the credit markets, particularly in the ABCP market, they did not settle on maturity. On January 21, 2009, pursuant to a court approved restructuring plan, the holders of affected ABCP had their short term commercial paper exchanged for longer term notes. The notes received by CANARIE Inc. mature on July 15, 2056.

The restructuring plan called for accrued interest (net of expenses) for the period August 1, 2007 to August 31, 2008 to be paid to noteholders. CANARIE Inc. received a payment of \$35,542. In addition, interest for the period from September 1, 2008 to January 21, 2009 was received subsequent to the year end in the amount of \$14,165.

As at March 31, 2009, CANARIE Inc. estimated the fair value of the Notes at approximately \$575,000 (2008 - \$575,000) and has recognized a write-down of \$nil (2008 - \$413,365) in the Statement of Operations.

CANARIE Inc. estimated the fair value of the Notes using a weighted discounted cash flow approach, based on the following estimates derived from the restructuring agreement and current market analysis: a nine year time period over which the assets are expected to generate cash flows; discount rates of 6% and 9% to apply to the net cash flows anticipated to be received commensurate with the return on comparably rated notes in accordance with the risk factors of the different investments and other additional qualitative factors.

This estimate of the fair value of the Notes are not supported by observable market prices or rates and therefore is subject to uncertainty, including, but not limited to, the estimated amounts to be recovered, the yield of the substitute financial instruments and the timing of future cash flows. The resolution of these uncertainties could be such that the fair value of the Notes may vary materially from CANARIE Inc.'s current estimate. CANARIE Inc. does not expect there will be a material adverse impact on its organization as a result of the illiquidity of the Notes.

Continued...

4. CAPITAL ASSETS

	2009		2008	
	Cost \$	Accumulated Amortization \$	Cost \$	Accumulated Amortization \$
Computer equipment	76,903	40,955	1,056,759	1,036,416
Equipment	24,962	9,690	23,490	4,698
	101,865	50,645	1,080,249	1,041,114
Less: accumulated amortization	(50,645)		(1,041,114)	
	51,220		39,135	

During the year, equipment that was totally amortized was removed from the total cost and total accumulated amortization.

5. CAPITAL ASSETS - CANET 4

	2009		2008	
	Cost \$	Accumulated Amortization \$	Cost \$	Accumulated Amortization \$
Network equipment	28,828,014	17,916,625	45,582,412	30,160,483
Less: accumulated amortization	(17,916,625)		(30,160,483)	
	10,911,389		15,421,929	

CAnet 4 capital assets reflect the investment made in the CAnet 4 network backbone. The amounts are amortized over the useful life of the equipment, and in all cases, will be fully amortized by March 31, 2012.

During the year, equipment that was totally amortized was removed from the total cost and total accumulated amortization.

Some fully amortized equipment was sold during the year for proceeds of \$286,790 and these proceeds have been allocated to the CAnet 5 project to support future expenses.

Continued...

6. CAPITAL ASSETS - CANET 5

	2009		2008	
	Cost \$	Accumulated Amortization \$	Cost \$	Accumulated Amortization \$
Network equipment	3,881,617	974,044	1,625,724	321,661
Less: accumulated amortization	(974,044)		(321,661)	
	2,907,573		1,304,063	

CAnet 5 capital assets reflect the investment made in the CAnet 5 network backbone. The amounts will be amortized over the useful life of the equipment, and in all cases, will be fully amortized by March 31, 2012.

7. DEFERRED FUNDING - CANET 4

Pursuant to a Funding Agreement signed on March 28, 2002, CANARIE Inc. received funding of \$110,000,000 from the Minister of Industry to support CANARIE Inc. in the design, development, deployment and operations of CAnet 4. In 2008, final expenditures on the project were completed and unexpended funds were returned to the Minister of Industry. The funding related to the purchase of capital assets has been deferred and is being amortized into income on the same basis of amortization as the related capital assets.

The balance of the funds has been reflected as follows:

	2009 \$	2008 \$
Balance, beginning of year	15,421,929	24,021,317
Project expenditures in the year	-	(904,085)
Funding transferred to revenue to match amortization of capital assets	(4,510,540)	(7,456,895)
Investment income	-	101,983
Returned to consolidated revenue fund	-	(340,391)
Balance, end of year	10,911,389	15,421,929

Continued...

8. DEFERRED FUNDING - CANET 5

On March 28, 2007, CANARIE Inc. entered into a funding agreement with the Minister of Industry. The funding agreement grants CANARIE Inc. \$120,000,000 to enhance and extend the technical capabilities of the next generation of the CANARIE Network. CANARIE has received \$39 million of this funding from the Minister of Industry for the 2007/2008 and 2008/2009 fiscal years and a further \$28 million as requested in the Annual Business Plan for 2009/2010 requirements. CANARIE will continue to draw down the remainder of the funding until March 31, 2012.

The funding received has been reflected as follows:

	2009 \$	2008 \$
Balance, beginning of year	28,518,575	-
Funding received	28,000,000	39,000,000
Project direct expenditures in the year	(10,947,935)	(11,236,321)
Amortization of CANet 5 capital assets	(652,383)	(321,661)
Light path recoveries & sale of equipment	476,567	-
Investment income	740,043	1,076,557
Balance, end of year	46,134,867	28,518,575

On March 31, the funds were held as follows:

	2009 \$	2008 \$
Cash	1,041,691	165,993
Short term investments	31,295,538	27,074,110
Accounts receivable	-	3,446
Short and long term service contracts	13,537,790	-
Accrued liabilities	(2,647,725)	(29,037)
	43,227,294	27,214,512
CANet 5 capital assets (net)	2,907,573	1,304,063
	46,134,867	28,518,575

Continued...

9. RESTRICTED NET ASSETS

Royalty Fund

During the 2007/2008 fiscal year, Industry Canada granted CANARIE Inc. the authority to retain royalties collected after March 31st, 2007 and to use these funds in a manner to be determined by CANARIE Inc. and its legal counsel. Annual allocations to the fund include royalties received as well as investment income.

Windup of Operations

During the 1998 fiscal year, CANARIE Inc. established a fund for the eventual wind up of its operations or for the transition to a new mode of business. In either event, the fund will be used to pay operating expenses. The objective was to allocate to the fund an amount between 50% and 75% of the organization's annual operating budget. The fund cannot be reallocated without the approval of the Board of Directors.

10. COMMITMENTS

Lease commitment

CANARIE Inc.'s current lease for premises expires on September 16, 2009. A new lease agreement has been signed for a new location effective September 1, 2009 and expiring August 31, 2014. Future minimum annual lease payments under operating leases for premises are due as follows:

2010	\$	249,751
2011		339,075
2012		339,075
2013		339,075
2014		339,075
2015		141,281
		<hr/>
	\$	1,747,332

Contractual commitments

As at March 31, 2009, CANARIE Inc. had commitments relating to its share of funding of expenditures with respect to the following programs:

Network-Enabled Platforms Program	\$	12,143,431
Infrastructure Extension Program		624,399
ORAN programs		1,778,750
Royalty funded projects		180,000
CAnet 5 Network expenses		2,214,910
		<hr/>
	\$	16,941,490

11. RELATED PARTY TRANSACTIONS

During the year, consulting fees and reimbursement of expenses, totaling \$ 17,150 (2008 – \$nil), were paid to a former member of senior management.

Consulting fees and reimbursement of expenses were contracted in the year, to be paid to a company controlled by a member of the board. No expenses were paid in the current fiscal year.

These transactions arose during the normal course of operations and have been carried out on the same terms as would apply with unrelated parties.

12. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments carried at amortized cost

The carrying value of cash, accounts receivable and accounts payable and accrued liabilities approximate the fair value due to the immediate or short-term nature of these financial instruments.

Credit Risk

The organization is exposed to credit risk on the accounts receivable from its members/sponsors/funders. The organization does not have a significant exposure to any individual one of these parties.

Interest Rate Risk

The entity's marketable securities are not subject to risk in respect of fluctuating interest rates since they are all Canadian notes or bonds with fixed interest. However, there is risk of market value adjustments on these investments which may result in cash flow risk. The short-term notes with flexible interest rate will expose the entity to interest rate risk. All other financial assets and liabilities, in the form of receivables and payables, are non-interest bearing. Overall, the organization's interest rate risk is not significant.