Thanks to the vision of its Prime Minister, Canada will celebrate the new millennium by investing in its most important resource, its young people. Created after the 1998 Budget as a private, independent and autonomous body, the Canada Millennium Scholarship Foundation was assigned the task of facilitating access to higher education and reducing student debt; and was endowed with $2.5 billion. Over the course of the next ten years, this Foundation will provide scholarships averaging $3,000 each year to more than one million young Canadians.

Providing scholarships to needy and deserving students is more than a way to celebrate the new millennium; it is a way to build Canada for tomorrow. In the short term, the Foundation’s scholarships will help young Canadians to acquire the knowledge and skills they require to succeed; in the longer term, the Foundation’s awards will benefit the entire country by improving the quality of Canada’s workforce and enhancing its ability to compete on a global scale.

I am proud to be associated with the Foundation and its mission. Its program is one which unites the federal government, students, and thousands of Canadians who understand the need to invest in developing the minds of our youth and preparing them for the challenges of the next millennium.

After six months of work, I believe I can say that the Foundation has made a good beginning. During 1998, the Foundation laid the basis for the rapid and efficient distribution of scholarships which will meet the needs of Canadian students.

Thanks to everyone’s efforts, the Foundation is now in a position to fulfill its mission and to distribute its first scholarships as planned early in the year 2000.

To the Prime Minister of Canada, The Right Honourable Jean Chrétien, who conceived the idea of investing new financial resources in future generations; to the Government of Canada which has made the Prime Minister’s vision possible; to the leaders of provincial governments who will assist us in achieving our goals; to all who participated in our public consultations; and to all who are working with us to help Canada’s students, I express my deepest gratitude.

Jean C. Monty
Chairman of the Board of Directors
Go confidently in the direction of your dreams. Live the life you’ve imagined.

> Henry David Thoreau
The voyage of discovery is not in seeking new landscapes but in having new eyes.

> Marcel Proust
Canadian students are in urgent need of financial assistance. The Canada Millennium Scholarship Foundation intends to help by providing them with as many scholarships as possible, as quickly as possible.

The Foundation has received $2.5 billion from the Government of Canada. This money has been invested and all revenue earned will, together with the principal, be used to provide scholarships starting early in the year 2000. The cost of administering and distributing these scholarships will be kept to a minimum in order to maximize the number of scholarships that can be offered.

**The basis of our action**

In developing its scholarship program, the Foundation will be guided by three requirements set out in the *Act of Parliament* which established it. These are:

1. A requirement that its scholarships go to students who are in financial need and demonstrate their ability to pursue post-secondary studies;
2. A requirement that its scholarships complement existing provincial financial aid programs whenever possible and avoid duplication with their administrative procedures;
3. A requirement that its scholarships be distributed fairly and equitably across Canada.

**Outlook for 1999**

During the coming year, the Foundation will complete three major tasks.

First, it will finalize its administrative structure, hire a small but efficient staff, and move into permanent offices.

Second, it will prepare the way for its first scholarships in January 2000 by negotiating and concluding agreements with Canada’s thirteen provinces and territories. These agreements will permit the Foundation to complement existing provincial programs and to administer its awards in a way which is both simple and user-friendly.

And third, it will take steps to ensure that its objectives and programs are known and supported by Canadians from coast to coast.

By successfully completing this work, the Foundation will lay the groundwork for what is certainly the single largest contribution to dismantling the financial barriers to higher education in the history of Canada. Making higher education more accessible will be the Foundation’s contribution to ensuring that the citizens of this country have the knowledge and skills they require to prosper in the new millennium.

Norman Riddell
Executive Director and Chief Executive Officer
On February 24, 1998, The Right Honourable Jean Chrétien appointed Mr. Yves Landry, Chairman of the Board and CEO of Chrysler Canada, as Chairman of the Board of the Canada Millennium Scholarship Foundation. Mr. Jean C. Monty, Chairman and CEO of BCE Inc. took over the responsibility after the death of Mr. Landry in May of 1998. On June 18 of the same year, the Parliament of Canada adopted Bill C-36, creating the Canada Millennium Scholarship Foundation.

Revenue from investment of Foundation assets

The Government of Canada transferred $2.5 billion to the Foundation in July 1998. The Foundation immediately took measures to ensure this capital would be managed carefully and efficiently while providing at the same time the best return possible.

As a first step, the Foundation issued a call for tenders, and then selected three firms, each of which now manages a third of its portfolio. These firms are Phillips, Hager & North Investment Management Limited in Vancouver, and TD Asset Management Inc. and YMG Capital Management Inc. in Toronto.

Annualized return as of December 31, 1998 stands at 9%, and more than $100 million has been added to the principal. Assuming that all gains will be realized, this investment income will be used to increase the number of scholarships to be issued to students in the coming years.

Research and consultations

From its inception, the Foundation has sought to ensure that the millennium scholarships meet students’ needs and expectations as effectively as possible. The post-secondary education system in Canada, as well as student financial aid programs in Canada and the United States, were analyzed between July and December 1998. In conducting this work, the Foundation met with numerous stakeholders in the field of education, with students receiving special attention.

The Foundation also commissioned an important study by Dr. David C. Smith, former Rector of Queen’s University in Kingston. Dr. Smith met with students, provincial representatives, and directors of institutions and organizations such as the Canadian Association of Student Financial Aid Administrators (CASFAA). Their message was unanimous: financial need must be the predominant criterion for awarding at least 95% of the scholarships.

We must become the change we want to see.

> Mahatma Gandhi
It may be that those who do most, dream most.

> Stephen B. Leacock
Appointment of directors
The law creating the Foundation dictates that it will be governed by a board of 15 people who will have to report to 15 members.

The directors and members, who are Canadian citizens from across the country, represent the business, educational, public service and student communities. They were selected on the basis of their knowledge of post-secondary educational issues and the needs of the Canadian economy.

Their appointments were made following consultations with provincial ministers of education and representatives of Canadian post-secondary institutions. Student directors were chosen following extensive consultations with representatives of post-secondary institutions, including presidents of student associations.

In accordance with the Act establishing the Foundation, the Government appointed the first six members, who in turn appointed the next nine members. These 15 members then appointed nine directors. The Government named six other directors, including the Chairman of the Board.

Foundation members play the role of trustees or shareholders, while the directors assume the responsibilities normally associated with membership of a board of directors. The Foundation’s activities are administered by an Executive Director who reports to the Board of Directors and will eventually direct a staff of 20-25 persons.

The Foundation hired its Executive Director and Chief Executive Officer at the end of the year. This required the Foundation to find a competent administrator — someone aware of Canada’s particularities, sensitive to the concerns of provincial partners and with experience in negotiating techniques and managing a complex program. The Foundation chose Norman Riddell. A career government official and experienced negotiator, Mr. Riddell has a rare expertise in the post-secondary education sector and also has intimate knowledge of the workings of the federal and provincial governments in this country. He will officially take up his position in January 1999.

Lastly, the Foundation has established its head office in Montreal.
Outlook for the coming months

The Foundation will have four main priorities in the coming year:

1. To finalize its administrative structure, ensuring that it is compact, professional, efficient and low-cost.

2. Following Dr. Smith’s recommendations, to adopt guidelines for the implementation of the Millennium Scholarship Program. These guidelines will establish:
   • how millennium scholarships are allocated among the different regions of Canada;
   • the average amount of General Scholarships;
   • the dominant criteria to guide the awarding of General Scholarships which will represent 95% of the Foundation’s activities;
   • how student need for financial aid is to be assessed;
   • eligibility criteria for General Scholarships;
   • criteria for awarding Exceptional Merit Scholarships, together with a fair, efficient method for their administration.

3. Early in 1999, the Foundation will enter into negotiations with the provinces and territories in order to conclude agreements for the awarding of scholarships to students at the beginning of the year. In these negotiations, the Foundation will attempt to ensure that its activities complement existing provincial student financial assistance programs and avoid duplication with their processes. Doing so will require that specific solutions be found to accommodate differences among provincial programs. In all cases, the Foundation’s objectives will be to ensure that students benefit from its scholarships as quickly and simply as possible.

4. The Foundation intends to develop a number of communication tools to reach its large and varied audience. To date, an Internet site has been set up and is updated regularly. In Canada, in the coming months, the Foundation also intends to produce information brochures and other material for use by post-secondary educational associations, financial aid administrators and the media.

The future belongs to those who believe in the beauty of their dreams.

> Eleanor Roosevelt
AUDITORS' REPORT

To the Members of the Board of Directors of the

Canada Millennium Scholarship Foundation [the “Foundation”]

We have audited the balance sheet of the Foundation as at December 31, 1998 and the statements of revenues and expenses and cash flows for the 197-day period then ended. These financial statements are the responsibility of the Foundation’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at December 31, 1998 and the results of its operations and its cash flows for the 197-day period then ended in accordance with generally accepted accounting principles.

Montreal, Canada
February 5, 1999.

Ernst & Young LLP
Chartered Accountants

BALANCE SHEET

As at December 31

[1998]

[In thousands of dollars]

ASSETS

Cash
Interest receivable [note 3]
Accounts receivable
Investments [note 3]

237
20,102
37
2,543,297

2,563,673

LIABILITIES AND NET ASSETS

Liabilities
Accounts payable and accrued liabilities
Deferred contribution [note 4]

604
2,563,069
2,563,673

Net Assets [note 4]

—

2,563,673

See accompanying notes

On behalf of the Board of Directors,

Jean C. Monty
Chairman of the Board

John O. Stubbs
Director
STATEMENT OF REVENUES AND EXPENSES
For the 197-day period ended December 31 1998
[in thousands of dollars]

REVENUES

Contribution from the Government of Canada [note 4] 1,439

EXPENSES

Management and custody of investments 712
Administration of scholarship program 121
General administration 606

Excess of revenues over expenses —

See accompanying notes

STATEMENT OF CASH FLOWS
For the 197-day period ended December 31 1998
[in thousands of dollars]

CASH FLOWS FROM OPERATING ACTIVITIES

Excess of revenues over expenses —
Non-cash items
  Amortization of premiums and discounts on bonds 9,928
  Net gain on disposal of investments (3,204)
Net increase in deferred contribution related to expenses of future periods 2,563,069
Net increase in cash for the period 2,550,258

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments (10,824,696)
Disposal of investments 8,274,675
Cash flows from investing activities (2,550,021)

Net increase in cash for the period 237
Cash at beginning of period —
Cash at end of period 237

See accompanying notes
NOTES TO FINANCIAL STATEMENTS  
December 31, 1998 (Tabular amounts are in thousands of dollars)

1 | PURPOSE OF THE FOUNDATION
The Canada Millennium Scholarship Foundation [the “Foundation”] was incorporated on June 18, 1998 under Part I of the Budget Implementation Act, 1998 [the “Act”], for the purpose of managing a fund of $2.5 billion and to grant scholarships to students who are in financial need and who demonstrate merit. The Foundation’s mission is part of the Government of Canada’s Youth Employment Strategy.

The grant from the Government of Canada in the amount of $2.5 billion will be held, invested, administered and disbursed in accordance with the Act. This initial grant, together with future investment revenue, will be directed to the granting of scholarships to eligible students and the payment of the Foundation’s operating expenses [management and custody of investments, administration of scholarship program and general administration] in accordance with the requirements of the Act.

The mission of the Foundation is to grant scholarships to students who are in financial need and who demonstrate merit in order to improve access to post-secondary education so that Canadians can acquire the knowledge and skills needed to participate in a changing economy and society.

The Government of Canada announced that the Foundation intends to grant each year scholarships of an average amount of $3,000 to over 100,000 full-time students over a 10-year period beginning in the year 2000.

2 | SIGNIFICANT ACCOUNTING POLICIES
The financial statements have been prepared by management in accordance with generally accepted accounting principles.

Revenue recognition
The Foundation follows the deferral method of accounting for contribution by the Government of Canada.

The initial restricted contribution received, amounting to $2.5 billion, and the related restricted investment income are recognized as revenue in the period during which the scholarships are granted and operating expenses are incurred.

Investments
Investments are recorded at the lower of cost and market. Premiums and discounts on bonds are amortized over the remaining term of the investments.

Income taxes
The Foundation is a non-taxable entity under paragraph 149(1)(f) of the Income Tax Act.
3 | INVESTMENTS

Investments comprise the following financial instruments:

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Interest receivable</td>
</tr>
<tr>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Money market</td>
<td></td>
</tr>
<tr>
<td></td>
<td>52</td>
</tr>
<tr>
<td>Bonds</td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>15,551</td>
</tr>
<tr>
<td>Provinces</td>
<td>1,609</td>
</tr>
<tr>
<td>Corporations</td>
<td>2,376</td>
</tr>
<tr>
<td></td>
<td>19,536</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>514</td>
</tr>
<tr>
<td></td>
<td>20,102</td>
</tr>
</tbody>
</table>

MATURITY AND RETURN

<table>
<thead>
<tr>
<th></th>
<th>Less than 1 year</th>
<th>From 1 to 3 years</th>
<th>3 years and over</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Money market</td>
<td>49,075</td>
<td>4.95</td>
<td>—</td>
<td>49,075 4.95</td>
</tr>
<tr>
<td>Bonds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>—</td>
<td>191,672</td>
<td>1,819,232</td>
<td>2,010,904 5.44</td>
</tr>
<tr>
<td>Provinces</td>
<td>1,387</td>
<td>17,468</td>
<td>91,279</td>
<td>110,134 5.34</td>
</tr>
<tr>
<td>Corporations</td>
<td>10,789</td>
<td>96,707</td>
<td>140,593</td>
<td>248,089 5.72</td>
</tr>
<tr>
<td></td>
<td>12,176</td>
<td>305,847</td>
<td>2,051,104</td>
<td>2,369,127 5.47</td>
</tr>
<tr>
<td>Mortgage-backed securities</td>
<td>7,542</td>
<td>—</td>
<td>117,553</td>
<td>125,095 5.67</td>
</tr>
<tr>
<td></td>
<td>68,793</td>
<td>305,847</td>
<td>2,168,657</td>
<td>2,543,297 5.47</td>
</tr>
</tbody>
</table>

An active market exists for the Foundation’s investments, which could be sold for a price that approximates their fair values.

The return is computed on the assumption that the investment will be held until maturity and represents the return that would be earned taking into account interest and any premiums or discounts.
3 | INVESTMENTS (Cont’d)
Credit risk
The credit risk is limited due to the fact that, pursuant to the Act, the Foundation’s investments are made according to the doctrine of how a prudent person would act when managing an investment portfolio. The Foundation invests in bonds and money market securities issued by government organizations and corporations which have a high credit rating. In addition, the Foundation avoids concentrating a large percentage of investments with the same issuer, taking into consideration the issuer’s outstanding book debts. No speculative investments are made.

4 | DEFERRED CONTRIBUTION AND NET ASSETS
The grant of $2.5 billion received from the Government of Canada in 1998 and the related investment income are restricted to the millennium scholarships and the operating expenses of the Foundation, in accordance with the requirements under the Act. Consequently, the full amount of the grant received by the Foundation is deferred and recognized in revenue as the related expenses are incurred. Thus, there is never a net asset balance.

The deferred contribution balances are as follows:

<table>
<thead>
<tr>
<th></th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of period</td>
<td>5</td>
</tr>
<tr>
<td>Add: Contribution from Government of Canada</td>
<td>2,500,000</td>
</tr>
<tr>
<td>Add: Investment income earned</td>
<td>64,508</td>
</tr>
<tr>
<td>Less: Contribution applied toward expenses during the period</td>
<td>(1,439)</td>
</tr>
<tr>
<td>Balance at end of period</td>
<td>2,563,069</td>
</tr>
</tbody>
</table>

5 | FINANCIAL INSTRUMENTS
The carrying values of cash, interest receivable, accounts receivable and accounts payable and accrued liabilities approximate their fair value because of the short period to maturity of these financial instruments. The fair values of investments are disclosed in note 3.

6 | UNCERTAINTY DUE TO THE YEAR 2000 ISSUE
The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity’s ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Foundation, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.
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Student

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* Photo not available at time of printing
† Appointed by the Board of Directors

Millennium Scholarships
Les bourses du millénaire

CANADA MILLENNIUM SCHOLARSHIP FOUNDATION
FONDATION CANADIENNE DES BOURSES D’ÉTUDES DU MILLÉNAIRE

1000 Sherbrooke West, Suite 800, Montreal, Quebec, H3A 3R2  Tel: (514) 985-0026 · Toll free: 1 877 786-3999
Fax: (514) 985-5987 · www.millenniumscholarships.ca
What lies behind us and what lies before us are tiny matters compared to what lies within us.

> Oliver Wendell Holmes