

**THE CALGARY FOUNDATION
MANAGEMENT DISCUSSION AND ANALYSIS
For the year ended March 31, 2008**

Management's discussion and analysis ("MD&A") is provided to enable a reader to assess our financial condition and results of operations for the fiscal year ended March 31, 2008, compared to the preceding year. This MD&A should be read in conjunction with our audited financial statements and related notes dated June 6, 2008. All amounts are based on financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP) except portfolio returns which are based on performance reporting methodology. The Calgary Foundation ("TCF") operates in accordance with The Calgary Foundation Act and bylaws and within the regulatory framework of the Income Tax Act (Canada), the Canada Revenue Agency ("CRA") guidelines and the Charitable Fund-raising Act and Regulations (Alberta).

TCF promotes philanthropy, receives and manages endowed gifts and grants to charitable organizations.

BUSINESS ENVIRONMENT

The major economic factors influencing TCF's financial activity of contributions, investments and grants are, respectively, the levels of discretionary income of Calgarians and their perceptions of how a slowing economy will affect that discretionary income, the performance of the capital markets in which TCF invests its assets, and the expectations of long term capital market rates of returns.

A business environment that fosters entrepreneurs and supports their business success is critical to the continued growth of assets through contributions. A community that is receptive to philanthropy is necessary for the successful implementation of our strategy.

The tax and regulatory environment also impacts TCF. The reduced (to zero) inclusion rate for capital gains arising from gifts of publicly-listed securities and the recent Alberta tax credit of 50% for charitable donations over \$200 in a calendar year will affect giving levels in a positive manner while the federal government's removal of the advantage of giving publicly-listed securities to public foundations versus private foundations will negatively affect contributions.

STRATEGIC DIRECTION

A shift in direction was identified two years ago as the next step in the growth and evolution of TCF. Knowledge of community needs and the charitable sector are distinguishing characteristics of TCF and are at least as important as increasing our asset base. TCF has a responsibility to lead in community building, with partners, as a convener, facilitator, and catalyst. Through the Vital Signs[®] initiative, TCF will convene community leaders in partnership to explore the quality of life of our city, to celebrate success, and to inspire action in areas of need.

Success in building the asset base over the past 10 years allows a shift in focus from asset growth to community impact. While TCF will continue to inspire giving, it will seek to better understand the difference it makes in the community and seek to have a more strategic, and proactive, impact through grant making.

TCF will focus on understanding donors and their needs in order to deliver optimum service to philanthropists and to forge long term relationships with donors for the long term benefit of the

community. TCF will engage donors in experiencing the impact of their gifts, knowing that passion for the cause is the motivation behind each gift.

The needs of the charitable sector exceed the ability of TCF to respond. TCF will continue seeking to grow its capacity to support charities by growing the endowments. Through the Forever Funds Initiative TCF will stir public interest and foster dialogue in 5 areas of unmet needs, specifically Arts and Heritage, Mental Health, Environment, Diversity and Inclusion, and Seniors. TCF will inspire new gifts to address these needs.

Key Result Areas

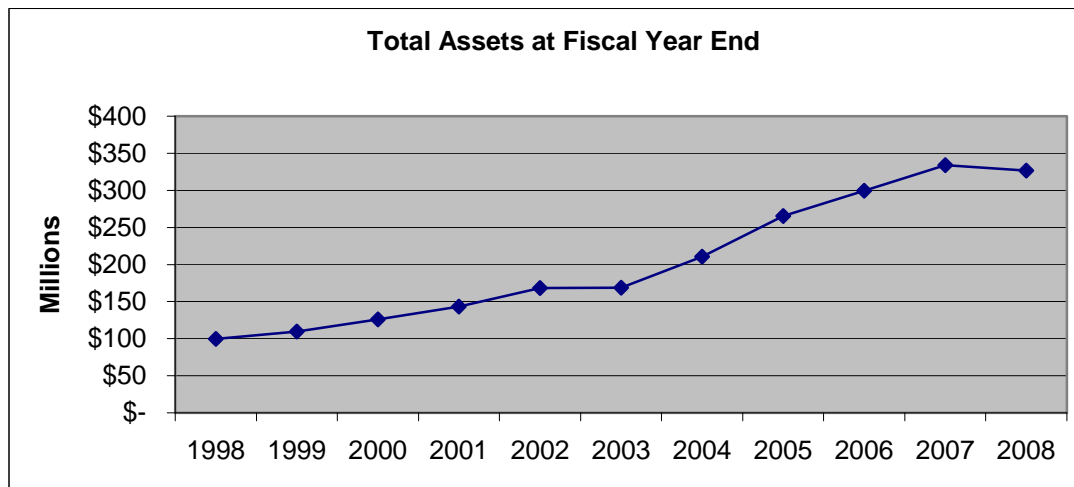
Particular attention will be paid to results in five key areas over the next three years to ensure the continued success of TCF:

- **Community Leadership:** As a convener, a catalyst and facilitator TCF demonstrates leadership as a builder of community and a builder of philanthropy. We will focus our work on understanding the needs of the charitable sector and work proactively to bring resources to meet these needs. The Forever Funds and Vital Signs® initiatives will be key components of our community leadership in the next few years.
- **Donor Engagement:** Donors are satisfied and engaged with TCF for the long term. We will invite feedback from our donors and stakeholders and be responsive to their needs through customized service provision. We will activate family philanthropy and legacy planning to engage multigenerational participation.
- **Public Confidence and Profile:** The community understands the uniqueness of TCF and values its contribution. TCF's story is focused on community impact. Our communications strategy and materials will reflect this focus over the next year. Through partnerships and the Forever Fund Speaker Series TCF will reach new audiences.
- **Asset Growth:** The asset base continues to grow through sound investments and with new gifts. We will continue our prudent fiscal management over the investments by improving the risk profile of the primary endowment portfolio. We will thoughtfully seek new markets for TCF's message in order to continue the current rate of growth of the endowment funds.
- **Employee and volunteer engagement:** Employees and volunteers are highly satisfied and energized to work as part of TCF's team. Recognition and learning opportunities will be key strategies to attract and retain the best in the industry. Volunteers will have more enriching and rewarding opportunities.

ASSETS

TCF's assets under administration as at March 31, 2008 totaled \$326.6 million ('m') as compared to \$333.9 m at March 31, 2007. The March 31, 2008 figure represents a decrease of 2.2% from the prior year end. This single year decline was driven by the excess of grant expenditures and service costs of \$36.8 m and decreases in managed funds of \$11.1 m over contributions and investment income of \$36.9 m and deposits and earnings to managed funds of \$2.4 m. (Managed funds are endowments owned by other charitable organizations. The managed funds liability is represented on the Statement of Financial Position as a claim on TCF's primary endowment portfolio by these other

charitable organizations.) This decrease compares to an increase of 11.5% in the twelve month period ending March 31, 2007.



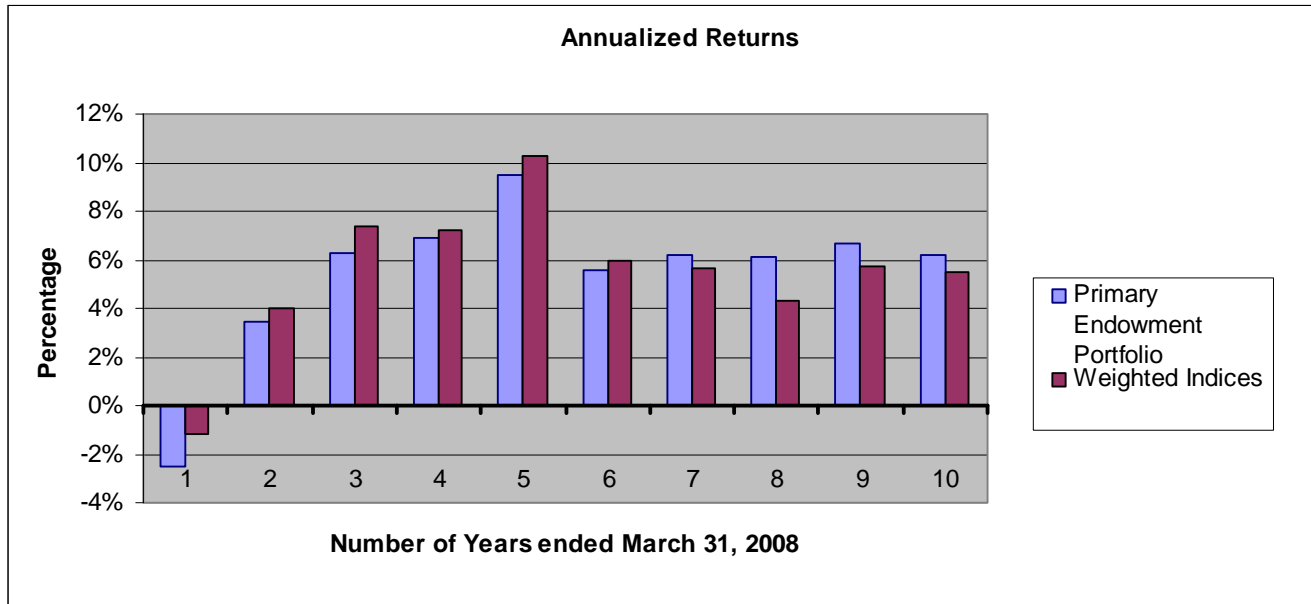
Investments

The total assets at March 31, 2008 included \$298.3 m in investments representing \$290.1 m of primary endowment portfolio investments, \$7.4 m of securities retained at the direction of the donors and \$0.8 m in gifted securities in the process of being monetized, all at market value.

The primary endowment portfolio is managed by external investment managers in accordance with a statement of investment policy and procedures last updated by TCF on December 17, 2007. The investment policy sets limits on the percentage of assets held in individual securities and classes and sets quality, liquidity and performance criteria.

On a gross of investment fees basis, the primary endowment portfolio lost 2.5% during the fiscal year. By way of comparison, a weighting of the passive benchmark indices equal to that of the portfolio lost 1.2% in the same year.

At fiscal year-end, 36.2% of the portfolio was invested in Canadian bonds, 34.4% in Canadian equities, 23.3% in US equities, 4.7% in international equities and 1.4% in cash. An attribution analysis of the returns highlights that the primary driver of the underperformance versus the indices was the sector allocation of the Canadian equity manager. The US equity manager's value added through stock selection was outweighed by the Canadian equity manager's significant underexposure to the materials sector and under-allocation to the energy sector. The passively invested Canadian universe bond portfolio lagged the index by a tracking difference of 10 basis points. The international equity portfolio tracked the MSCI EAFE index.



TCF undertook an asset mix optimization exercise during the fiscal year to support success in our key result area of Asset Growth. The primary endowment portfolio was reviewed by the Investment Committee, management and an external investment consultant - the assumed external growth rate was analyzed, the portfolio's risk profile examined, the return expectations tested and the portfolio's ability to maintain its spending policy appraised. The investment consultant also modeled a number of potential portfolios, identifying those situated on the efficient frontier of the risk-reward trade-off, in order to improve the risk-return characteristics of the portfolio. The analysis demonstrated that adjustments to the endowment portfolio asset mix would improve the probability of meeting the current spending policy objective of 5% of the fiscal year-end market value on an annual basis and protecting the real purchasing power of the endowment portfolio. The analysis also demonstrated that asset mix alterations would reduce the downside, and overall, risk of the portfolio as a whole as measured by standard deviation. Given the return expectations and the correlations between asset classes, the model illustrated that the use of additional asset classes and the variation from the previous asset mix would improve expected returns. Although bonds, publicly- and privately-traded equities, hedge funds, infrastructure and real-estate asset classes were included in the modeling exercise; the selected portfolio includes bonds denominated in Canadian dollars, global and Canadian publicly-traded equities and Canadian real estate. There has been no change to the focus of TCF on the long-term, inflation-adjusted total return of the endowment portfolio.

The asset mix of TCF's primary endowment arising from this research will be 20% Canadian bonds, 5% high yielding securities, 20% large capitalization Canadian equities, 10% small capitalization Canadian equities, 35% global equities, including up to 5% in emerging markets as a tactical allocation, and 10% Canadian real estate. This new structure will be implemented upon completion of TCF's due diligence in regards to the structure of the mandates and the managers. Investment manager interviews for global and high yield bonds have been completed and those of real estate managers have begun.

In support of success in our key result area of Donor Engagement, alternatives to investing endowment gifts in the primary endowment portfolio are available.

The first gift under the Bank of Montreal (“BMO”)/Community Foundations of Canada (“CFC”) alliance ‘Supporting Your Community’, which is one alternative, was received by TCF at the end of calendar 2007 and was valued at \$28 k at fiscal year end. (CFC is a membership organization for Canada’s community foundations.) The alliance between BMO and 38 of Canada’s community foundations was created to facilitate charitable gifts by clients of BMO and to maintain the “full service” relationship between BMO’s financial advisors and their clients. A statement of investment policies was agreed to by BMO and CFC on February 1, 2004 and adopted by TCF on March 21, 2005. The BMO Harris Private Banking “Balanced Growth” portfolio, to which the gift was made, that includes Canadian, US, international and emerging market equities with Canadian bonds and cash lost 2.5% for the quarter ended March 31, 2008.

The \$7.4 m of gifts of securities retained at the direction of the donors, which is a second alternative for investing endowment gifts, is represented by 190,000 units of Penn West Energy Trust (\$5.4 m - 2008, \$6.5 m - 2007) and 150,000 units of Energy Savings Income Fund (\$2.0 m - 2008, \$1.9 m - 2007). The specific conditions of the gift agreements establish the manner in which these securities are administered.

A third alternative currently being examined is to enable donors to have their endowment gift to TCF managed by their existing investment managers. Due diligence is presently being undertaken to ensure appropriate governance structures and legal agreements are in place.

Cash and cash equivalents

Cash and cash equivalents decreased to \$26.8 m from \$34.2 m at the prior fiscal year end. The March 31, 2008 investment in money market instruments, representing capital contributions received that are to be granted to charitable organizations in the short term (“flow-through”), was \$19.8 m (\$25.2 m – March 31, 2007).

Of the \$7.0 m remainder of the cash and cash equivalents amount, \$3.8 m at fiscal year end was held by portfolio managers within the primary endowment portfolio, \$2.1 m represents Penn West trust distributions and related interest income and \$1.1 m is held for liquidity for grants and operational expenses.

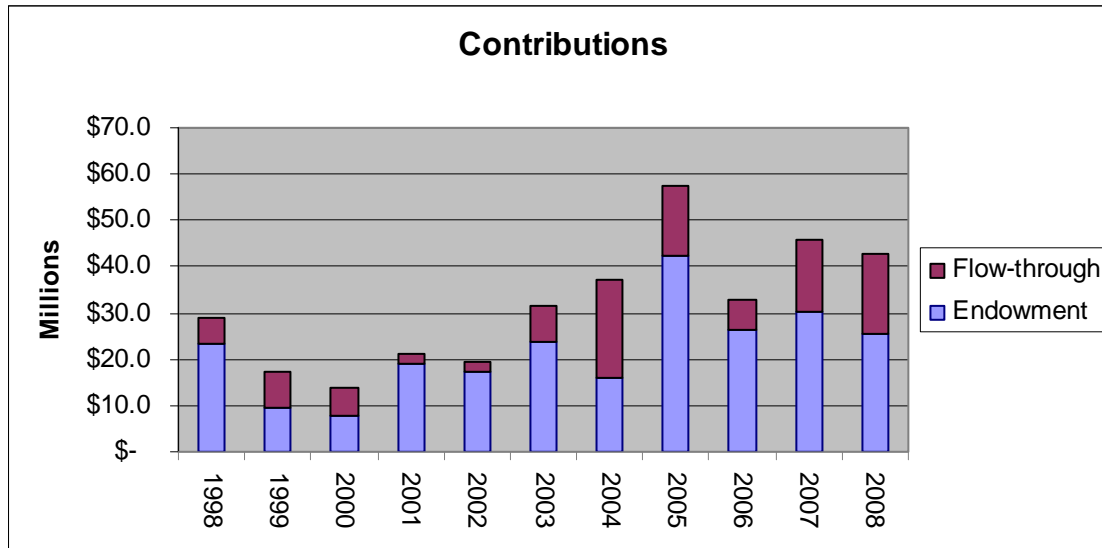
TCF did not incur any losses due to the asset-backed commercial paper (ABCP) issue that arose in mid-2007.

OPERATIONS

Revenue

During the twelve months ended March 31, 2008, contributions to TCF-owned endowment funds totaled \$25.6 m compared to \$30.3 m for the prior fiscal year. Contributions of \$2.8 m for the fiscal year compared to \$1.3 m for the previous fiscal year were directed to Community and Field-of-Interest funds (from which grants are directed to new and emerging needs of the community at the discretion of TCF). Donations of \$22.8 m for the period compared to \$28.9 m for the same prior year period were gifted to Donor-Advised and Designated funds. Flow-through contributions added \$17.1 m in the period (\$15.3 m for the twelve months ended March 31, 2007).

Contributions of non-cash gifts of \$16.2 m were received as compared to \$30.3 m in the previous year. Substantially all of these non-cash gifts were gifts of publicly-listed securities.



The sources of revenue available to satisfy the service costs of TCF are primarily threefold:

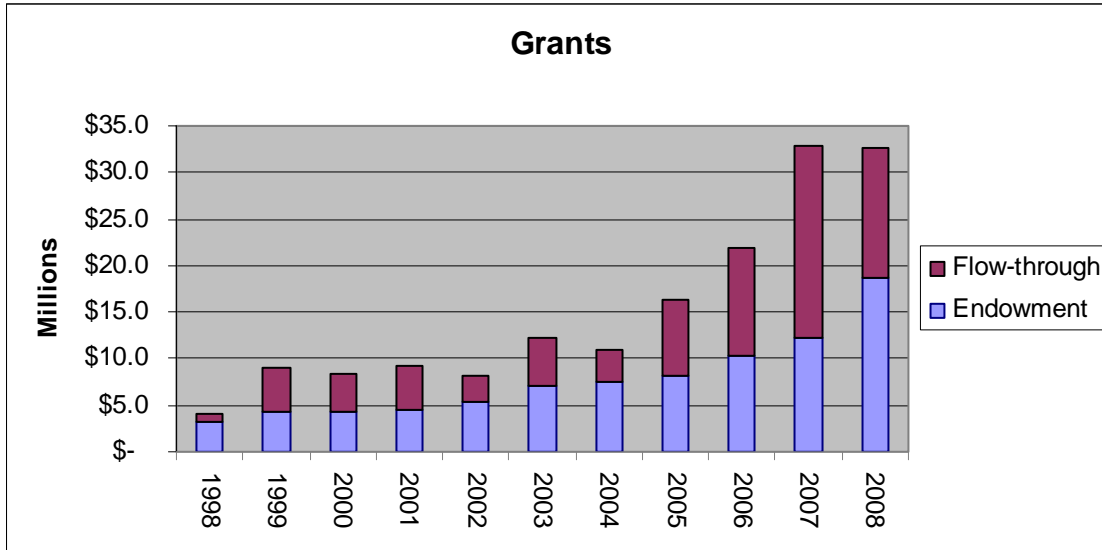
- i) A percentage of the market value of the individual endowment funds is allocated to service costs on a monthly basis by way of a tiered schedule. The amount of this allocation totaled \$3.1 m in 2008 and \$2.8 m in 2007.
- ii) Interest earned on the money market instruments, representing flow-through contributions, is typically revenue to the operations of TCF. This source of revenue totaled \$0.7 m (\$0.4 m in 2007) and represented 17% of the revenue available to satisfy service costs in the year (11% in fiscal 2007).
- iii) Managed funds fees of \$185 k (\$225 k in 2007) are revenue to TCF and an expense to the managed fund holders. This source of revenue, 5% of service costs for 2008 - 7% for 2007 - has been decreasing as the balance of funds owned by other charitable organizations and managed by TCF has decreased since the amount peaked at \$36.5 m on March 31, 2002.

Expenditures

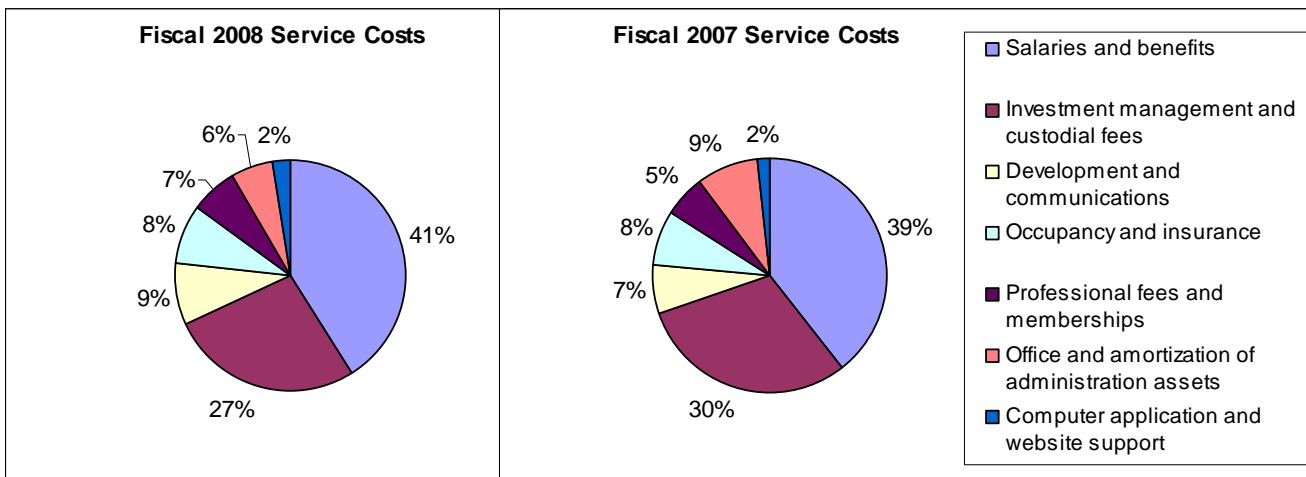
During the twelve month period, grants from endowment funds to charitable organizations totaled \$18.7 m, compared with \$12.3 m during the same period in 2006-07. Grants of \$5.5 m (\$1.7 m in the 2006-7 period) were made from Community and Field-of-Interest funds. Distributions to charitable organizations of \$13.2 m and \$10.6 m were made in the twelve month periods ended March 31, 2008 and 2007 respectively from Donor-Advised and Designated funds.

Flow-through grants were \$14.0 m this year, as compared to \$20.5 m for the fiscal year ended March 31, 2007. Flow-through grants are grants of capital arising from gifts that are not endowed. The timing of these flow-through grants is dependent on the timing of the donors' advice, the status of the recipient project, CRA's requirement to spend a minimum amount on charitable activities in a particular fiscal year ("disbursement quota") and TCF's disbursement quota accumulated from the five prior fiscal years.

To support success in the key result area of Public Confidence and Profile, work has begun to alter grant recipient reporting on funding received from TCF's Community Grants Program in order to better measure TCF's impact in the charitable sector. Additionally, efforts to translate grants data into information useful to understanding trends and allowing for analysis have begun.



The service costs incurred to execute the strategy and obtain results in the key areas totaled \$4.0 m in 2008 and \$3.4 m in 2007. Over two thirds of these costs are human resource costs (\$1.7 m – 2008, \$1.3 m – 2007) and investment management costs (\$1.1 m – 2008, \$1.0 m – 2007), 68% in 2008 and 69% in 2007. This ratio is expected to grow over the next year as the new primary endowment portfolio asset mix structure is implemented. Additional investment managers, a reduction to indexed investments and increased oversight demands will add to the costs of the new structure.



Service costs included in the chart above of \$140 k were incurred to envision, plan, create, publish and evaluate TCF's first Vital Signs® report card – a report card where over 600 Calgarians have graded the city on our overall quality of life, providing a snapshot of their views on our city's wellness and liveability. To further our objectives in the three key result areas of Community Leadership,

Donor Engagement and Public Confidence and Profile, Calgary's Vital Signs® will enhance the role TCF has played in the Calgary and area community. TCF has developed an understanding of the issues that affect our city through our relationships with our donors, fund holders, grantees and committee members who help guide our Community and Field-of-Interest funds grant making decisions. Going forward, Vital Signs® will inform TCF in its role as grant maker.

Calgary's Vital Signs® is part of a national initiative of 11 community foundations across Canada, spearheaded by CFC, to measure the overall quality of life in Canadian communities and to help identify areas for improvement. Planned as a long-term initiative, Calgary's Vital Signs® is intended to support the community through collaborative leadership and to engage citizens in a manner that will spark discussion, encourage connections and inspire action.

Service costs of \$15 k were incurred to implement DonorCentral® and online donations in support of the Donor Engagement and Asset Growth key result areas. DonorCentral® is an online tool to allow endowment or flow-through fund holders to view fund balances, gifts made to the funds, and grants from the funds. The ability to view and print monthly fund financial statements and make grant recommendations electronically is also incorporated. The capability to access TCF's current Community Grants projects as well as research grantee organizations is included.

Service costs as a percentage of average asset value has been commonly used by community foundations as a benchmark of efficiency. Service costs are impacted by the projects undertaken to support both operations and initiatives in the community. Strategic planning time horizons and longer term initiatives combined with uneven timing of contributions and short term vagaries of the capital markets result in wide dispersion of the ratio around the mean of 1.16% over the past decade.

