“It is a pleasure for me to participate in this CDFAI conference. We at the Department of Foreign Affairs and International Trade, view your organization as a premier forum for informed discussions of Canada’s international engagement. By bringing together the perspectives of practitioners, former military and diplomatic leaders, politicians, business leaders and academics, you have achieved, in your relatively short period of existence, a reputation for timeliness, focus and broad participation. Congratulations and be assured of our ongoing interest in future conferences.”

~

Peter Harder
Deputy Minister of Foreign Affairs and International Trade Canada
CDFAI Annual Ottawa Conference
October 30, 2006
Canadian Defence & Foreign Affairs Institute (CDFAI) is proud to support activities that promote understanding by the Canadian public of national defence and foreign affairs issues. The Institute is dedicated to educating Canadians, particularly those who play leadership roles in shaping Canadian international policy.

CDFAI believes in a prosperous and free Canada and a world of globalization and liberal internationalism.

For the past five years the Institute has grown because of the support of Canadians like you.

Your contributions have enabled us to significantly enhance our programming through the development of a body of knowledge, which can be used for Canadian policy development, media analysis and educational purposes.

We encourage you to read the 2006 CDFAI Annual Report.

Thank you for your continued support of CDFA.

Robert S. Millar,
CDFAI, President

(Cover photography compliments of DND, UN, Women for Women in Afghanistan)
CDFAI would like to thank its donors, supporters, fellows and associates for their generosity over the past year. As public interest in foreign and defence policy continues to grow, it becomes more important for quality research and information to be made available. These contributions will enable our international relations think tank to help shape effective diplomatic, defence and development policy for Canada and all Canadians.

Robert J.S. Gibson
CDFAI, Board Chair
CDFAI is a “think tank” pursuing authoritative research and new ideas aimed at ensuring Canada has a respected and influential voice in the international arena. Founded in 2001, the charitable organization had more than $800,000 revenues in 2006. Revenues are generated from sponsorships and donations from corporations, foundations, individuals and government grants.

CDFAI has three streams of programming: research, education and outreach. Each activity within these streams has been designed and developed to promote understanding by the Canadian public of Canada’s international engagement. The core expertise comes from 33 Fellows from across Canada.
“Canadian Defence and Foreign Affairs Institute is dedicated to balanced, non-advocacy, research and the dissemination of information about Canada’s foreign, defence and international assistance policies through publications, conferences, the World Wide Web, and other means. Since our founding in 2001, we have gained the respect of journalists, academics, and the policymaking community as a reliable source of both pure and applied research into Canada’s role in the world. In this past year we built upon the work we have done since our founding and, I believe, we achieved new heights in the confidence levels we have established in the broad national community that we aim to serve. National press coverage of our events and publications and the endorsement of some of Canada’s most esteemed experts in our field of endeavor attest to our successes.”

David Bercuson
CDFAI, Director of Programs
Canadian Defence & Foreign Affairs Institute (CDFAI) is pleased to present the year’s programming highlights

Annual Conference

In October, CDFAI hosted its 2006 Annual Ottawa Conference, *Foreign Policy Under a Conservative Government: An Interim Report Card*. The conference evaluated the Harper government’s record on foreign policy, defence and development. The conference included thought-provoking panel discussions and a debate. The results of a national public opinion poll were released at the conference.

Graduate Student Symposium

CDFAI collaborated with the Conference of Defence Associations Institute (CDAI) on this year’s Graduate Student Symposium in October. The Symposium included two days of presentations by 38 students from across Canada, engaged in the study of defence and security issues. The conference marked one of the most successful turnouts of student presentations to date. The Graduate Student Symposium was created to provide a unique venue for graduate students to present scholarly work on defence and foreign policy related issues in a public forum.

Issue Response Papers

This project allowed CDFAI to produce timely papers on issues of national importance, written by acknowledged experts on Canadian defence and foreign policy. The essays were posted on the website, distributed to targeted audiences, published on the opinion pages of The Globe and Mail and resulted in news reports from a number of media sources.

- A Canadian Foreign Intelligence Service by Reid Morden (May)
- Blunt Instruments (counter terrorism) by Reid Morden (June)
- Great Expectations: a Breakthrough in Major Defence Projects by George Macdonald (June)
- Our Leopard Tanks Make the Leap to Afghanistan by Bob Bergen (September)
- Leadership in a New Government Environment by Derek Burney (October)
“CDFAI has been able to make a major splash with its polls this year. Through our partnership with a leading Canadian daily, CDFAI has been front page news through the summer and fall. Moreover, calls are being received from key decision-makers and their staff looking for information beyond the headlines. CDFAI is becoming a ‘go to’ source for information about Canadian views on defence and foreign policy issues.”

Greg Lyle
Innovative Research Group, Managing Director
Military Journalism Course

Thirteen university students attended the 2006 Military Journalism Course at the University of Calgary and Canadian Forces Base in Edmonton. The course introduced graduate journalism students to the Canadian Forces and issues involved in covering the Canadian military in the new millennium. With training and education on military culture, the graduates came away from the course as stronger journalists better able to communicate with the Canadian public.

National Polls

Three national public opinion polls were commissioned by CDFAI in 2006 to monitor Canadians current thinking on significant international issues. Poll results were published in The Ottawa Citizen and on the CDFAI website.

- A poll released in June found that a majority of Canadians support troops in Afghanistan. Sixty-one percent of those surveyed said Canadian military involvement in Afghanistan is providing critical assistance to local Afghans and is trying to create a peaceful and democratic society.
- In a July poll, Canadians told CDFAI that they support a NATO Peacekeeping Force in Southern Lebanon, but are split on Canadian participation.
- A poll released in August found that a majority of Canadians feel more at risk for terrorist attack since 9-11, while two in five Canadians support ethnic profiling.

Quarterly Newsletters

CDFAI distributed a newsletter each quarter (spring, summer, fall and winter) to educate Canadians on timely topics related to Canada’s role on the international stage.

Reaching Out to Canadians

A bi-weekly column written by Dr. Bob Bergen was distributed through the media, via email and the internet to a broad audience to raise the level of public debate and draw attention to defence and foreign affairs issues.
“The global security environment is changing rapidly and in ways that are not well understood. CDFAI is playing a very important role in stimulating informed debate in this critical area.”

Gordon Smith
Centre for Global Studies – University of Victoria, Executive Director and CDFAI Advisory Council Member
In 2006, CDFAI produced four research papers on current, relevant themes related to defence, diplomacy and international development. Each provided a critical examination of recent issues and an analysis of existing policy.

- **The Strategic Capability Investment Plan: Origins, Evolution and Future Prospects** by Dr. Elinor Sloan (March). This critical assessment of one of the Department of National Defence’s central planning documents demonstrated that the long-term plan for Canadian Forces remains in limbo, without strategic direction.
- **Opaque Window: An Overview of Government Commitments Regarding the Department of National Defence and the Canadian Forces** by Dr. David Bercuson (May). This report tracked defence spending between January 1, 2000 and December 31, 2004. It concluded that it is almost impossible to determine if defence projects were on time and/or on budget.
- **The Homeland Security Dilemma: The Imagination of Failure and Escalating Costs of Perfecting Security** by Dr. Frank Harvey (June). This report found that the greater the financial costs, public sacrifice and political capital invested in security, the higher the public’s expectations and corresponding standards for measuring performance.
- **Effective Aid and Beyond: How Canada Can Help Poor Countries** by Danielle Goldfarb (December). This report concluded that for Canada to make a meaningful contribution to reducing poverty in developing countries, Ottawa needs to put development policy on its priorities list and frame its policy broadly, both in words and actions.

**Ross Munro Media Award**

In November, the Conference of Defence Associations (CDA) in concert with CDFAI, honoured Christie Blatchford, a columnist with The Globe and Mail, with the 2006 Ross Munro Media Award. The Ross Munro Media Award was initiated in 2002 to recognize Canadian journalists who have made a significant and extraordinary contribution to increasing public understanding of Canadian defence and security issues. Ms. Blatchford was recognized for her compelling work on the Canadian Forces, particularly in Afghanistan.

**Speakers’ Series**

Corporate and community leaders were invited to expand their knowledge of international relations through the experience and expertise shared by knowledgeable speakers in 2006.

- Dr. Elinor Sloan - The Long War: US Defence Strategy, Canada’s Role and the Potential Impact on Oil (March)
- Chris Wattie – National Post correspondent on reporting from Afghanistan (March)
- Stephen Randall – Political and Economic Challenges for Oil Investors in Columbia and Venezuela (June)
- Reid Morden – Oil, War and Sanctions: Lessons from the Middle East (September)
“In just five short years, the CDFAI think tank has helped to not only reinvigorate public debate and Canada’s future role on the world stage, but also to provide informed research on the policy commitments that could get us there.”

Allan Gotlieb
Aurea Foundation, Chairman
David Bercuson (Calgary) – Canadian Military Historian
Bob Bergen (Calgary) – Media-Civil Military Relations
Derek Burney (Ottawa) – Canada-US Relations
David Carment (Ottawa) – Peacekeeping & Canadian Foreign Policy
Barry Cooper (Calgary) – International Terrorism
Ray Crabbe (Winnipeg) – Canadian Military, Foreign Policy
Mark Entwistle (Ottawa) – International Affairs, Cuba
James Fergusson (Winnipeg) – Defence Policy/US Relations, BMD, Military Space
John Ferris (Calgary) – Intelligence, Strategy, Diplomacy
Brian Flemming (Halifax) – Airport Security, International Law
Richard Gimblett (Ottawa) – Canadian Naval/Defence Policy
Jack Granatstein (Toronto) – Canadian Defence/Foreign Policy
Frank Harvey (Halifax) – Cdn-US Foreign/Security Policy, Terrorism
George Haynal (Ottawa) – North America Affairs, International Business
Sharon Hobson (Ottawa) – Defence Policy, Media-Military Relations
Rob Huebert (Calgary) – Cdn-US Foreign Policy, Arctic Sovereignty/Security
Anne Irwin (Calgary) – Military Anthropology, Defence Research
Tami Jacoby (Winnipeg) – Middle East Politics, Foreign Policy, Terrorism
Mike Jeffery (Ottawa) – Defence Policy, Security Affairs
Eric Lerhe (Halifax) – Defence Policy, Maritime Issues
George Macdonald (Ottawa) – Defence Capabilities, Requirements and Resource Allocation
Nelson Michaud (Quebec City) – Quebec’s International Relations, Federalism, Globalization
Alexander Moens (Vancouver) – NATO Policy, Cdn-US Relations
Reid Morden (Toronto) – Intelligence, Security/Public Policy Issues
David Pratt (Ottawa) – Defence/Security Issues, International Humanitarian Law
Stephen Randall (Calgary) – US Foreign Policy, US-Latin America Relations
Andrew Richter (Windsor) – Defence/Foreign Policy, Nuclear Proliferation
Scot Robertson (Edmonton) – Defence Policy, Military Theory, Air Power
Cameron Ross (Calgary) – Defence Policy, Security
Stéphane Roussel (Montreal) – Defence Policy, Strategic Culture, Cdn-US Relations, Defence & National Unity
Elinor Sloan (Ottawa) – US and Canadian Security, Defence Policy
Gordon Smith (Victoria) – Security, Global Governance
Denis Stairs (Halifax) – Foreign/Defence Policy, Cdn-US Relations
“CDFAI fills a critical void in Canadian debate on issues regarding security, defence, foreign engagement, and the role of our military – its publications should be “must” reading for all policy makers.”

G.J. Maier O.C., C.D., LL.D., FCAE
TransCanada PipeLines Ltd.
Former Chairman, President and CEO
CDFAI wishes to thank the many donors who make this programming possible.

**Corporate**
- Alberta Electric System Operator
- Bennett Jones LLP
- COM DEV Ltd.
- Enbridge Inc.
- General Dynamics Canada
- General Dynamics Land Systems
- Hurry Hydrocarbons
- Lemans Realty Investors Inc.
- Lockheed Martin Canada
- Nexen Inc.
- PowerOffice Software Solutions Inc.
- Anonymous

**Individuals**
- A. Caddell
- B. Flemming
- J.L. Granatstein
- R. Haskayne
- W.F. Lesourd
- G.J. Maier
- R.S. Millar

**Foundations**
- Atlas Foundation
- Aurea Foundation
- Centre for International Governance Innovation
- Donner Canadian Foundation
- Institute for Research on Public Policy
- The Peter Munk Charitable Foundation
- Pirie Foundation
- RBC Foundation
- Woodrow Wilson International Center for Scholars – (Canada Institute)
- Anonymous

**Government**
- Foreign Affairs and International Trade Canada

**Universities**
- Carleton University (CSDS)
- Queen’s University (QCIR)
- University of Calgary (CMSS)
- University of Laval (HEI)
- McGill University and the Université de Montréal (The Régis)
CANADIAN DEFENCE AND FOREIGN AFFAIRS INSTITUTE

Financial Statements
December 31, 2006 and 2005
AUDITORS' REPORT TO THE MEMBERS

We have audited the statements of financial position of Canadian Defence and Foreign Affairs Institute (the "Institute") as at December 31, 2006 and 2005 and the statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Institute’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we 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 Institute as at December 31, 2006 and 2005 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants
Calgary, Canada
February 27, 2007
## Canadian Defence and Foreign Affairs Institute

**Statements of Financial Position**

December 31, 2006 and 2005

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and term deposits</td>
<td>$234,820</td>
<td>$74,121</td>
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<tr>
<td>Accounts receivable</td>
<td>17,210</td>
<td>32,701</td>
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<tr>
<td>Deposits</td>
<td>2,430</td>
<td>-</td>
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<tr>
<td></td>
<td>254,460</td>
<td>106,822</td>
</tr>
<tr>
<td>Property and equipment</td>
<td>(note 2)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2,138</td>
<td>8,296</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$256,598</strong></td>
<td><strong>$115,118</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LIABILITIES &amp; NET ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>$42,431</td>
<td>$69,572</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>(note 5)</td>
<td>187,000</td>
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<tr>
<td></td>
<td>229,431</td>
<td>$69,572</td>
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<tr>
<td><strong>Net Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net assets</td>
<td>27,167</td>
<td>45,546</td>
</tr>
<tr>
<td></td>
<td><strong>$256,598</strong></td>
<td><strong>$115,118</strong></td>
</tr>
</tbody>
</table>

On behalf of the Board:

[Signatures]

Director

Director

The accompanying notes are an integral part of these financial statements.
## Canadian Defence and Foreign Affairs Institute

**Statements of Operations**

**Years ended December 31, 2006 and 2005**

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donations</td>
<td>$764,533</td>
<td>$921,023</td>
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<tr>
<td>Events</td>
<td>27,307</td>
<td>-</td>
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<tr>
<td>Grants and project funding</td>
<td>13,901</td>
<td>87,376</td>
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<tr>
<td><strong>Total Revenue</strong></td>
<td>805,741</td>
<td>1,008,399</td>
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<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
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<tr>
<td>Projects and communications</td>
<td>668,656</td>
<td>822,567</td>
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<tr>
<td>Professional</td>
<td>63,213</td>
<td>50,421</td>
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<tr>
<td>Salaries and consultants</td>
<td>71,249</td>
<td>80,873</td>
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<tr>
<td>Office</td>
<td>14,004</td>
<td>18,939</td>
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<tr>
<td>Donations to qualified donees</td>
<td>-</td>
<td>2,500</td>
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<tr>
<td>Advertising and communications</td>
<td>17</td>
<td>2,448</td>
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<tr>
<td>Memberships and education</td>
<td>93</td>
<td>1,747</td>
</tr>
<tr>
<td>Fundraising</td>
<td>-</td>
<td>1,638</td>
</tr>
<tr>
<td>Gain on foreign exchange</td>
<td>730</td>
<td>-</td>
</tr>
<tr>
<td>Amortization</td>
<td>6,158</td>
<td>7,491</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>824,120</td>
<td>988,624</td>
</tr>
<tr>
<td><strong>Excess (deficiency) of revenue over expenses</strong></td>
<td>$(18,379)</td>
<td>$19,775</td>
</tr>
</tbody>
</table>
### CANADIAN DEFENCE AND FOREIGN AFFAIRS INSTITUTE
### Statements of Changes in Net Assets
### Years ended December 31, 2006 and 2005

<table>
<thead>
<tr>
<th></th>
<th>Invested in capital assets</th>
<th>Unrestricted</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, beginning of year</td>
<td>$8,296</td>
<td>$37,250</td>
<td>$45,546</td>
<td>$25,771</td>
</tr>
<tr>
<td>Excess (deficiency) of revenue over expenses</td>
<td>(6,158)</td>
<td>(12,221)</td>
<td>(18,379)</td>
<td>19,775</td>
</tr>
<tr>
<td>Balance, end of year</td>
<td>$2,138</td>
<td>$25,029</td>
<td>$27,167</td>
<td>$45,546</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excess (deficiency) of revenue over expenses</td>
<td>$ (18,379)</td>
<td>$ 19,775</td>
</tr>
<tr>
<td>Amortization</td>
<td>6,158</td>
<td>7,491</td>
</tr>
<tr>
<td>Change in non-cash working capital</td>
<td>172,920</td>
<td>(5,511)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>160,699</td>
<td>21,755</td>
</tr>
<tr>
<td><strong>Change in cash</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>160,699</td>
<td>21,755</td>
</tr>
<tr>
<td>Cash, beginning of year</td>
<td>74,121</td>
<td>52,366</td>
</tr>
<tr>
<td>Cash, end of year</td>
<td>$ 234,820</td>
<td>$ 74,121</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
Organization

Canadian Defence and Foreign Affairs Institute (the “Institute”) is a registered charity under the Income Tax Act and is exempt from income taxes. The Institute is dedicated to enhancing Canada’s role in the world by helping to stimulate awareness and debate amongst Canadians about their nation’s defence and foreign policies and the instruments that serve them.

1. Significant Accounting Policies:

Revenue recognition

The Company 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.

Amortization

Computer equipment is amortized on a straight-line basis over 3 years. Furniture and equipment are amortized on a declining balance basis at 20% per year. Leasehold improvements are amortized on a straight-line basis over the period of the related lease.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the years. Actual results could differ from those estimates.
2. Property and equipment

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Leasehold improvements</td>
<td>$17,330</td>
<td>$16,897</td>
<td>$433</td>
<td>$5,703</td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>11,248</td>
<td>9,543</td>
<td>1,705</td>
<td>2,593</td>
</tr>
<tr>
<td></td>
<td>$28,578</td>
<td>$26,440</td>
<td>$2,138</td>
<td>$8,296</td>
</tr>
</tbody>
</table>

3. Related Party Transaction

During the year ended December 31, 2006 the Institute paid administrative fees of $70,982 (2005 - $66,475) to a group of companies controlled by the patron and member in good standing. During the year ended December 31, 2006 the Institute received donations of $215,000 (2005 – 222,000) from a group of companies controlled by the patron and member in good standing.

4. Financial Instruments

The carrying value of cash and term deposits, accounts receivable, accounts payable and accrued liabilities and deferred revenue held at December 31, 2006 approximate their fair value due to the relatively short periods to maturity.

5. Deferred revenue

Deferred revenue relates to various donor funded projects which will be recognized in the next fiscal year when these projects are completed.
CDFAI 2006 Advisory Council

**Jack L. Granatstein**, Chair  
Author, Historian, Toronto  

**Perrin Beatty**  
Canadian Manufacturers and Exporters, Ottawa  

**Jocelyn Coulon**  
Visiting Professor - University of Montreal, Montreal  

**Natasha Hassan**  
The Globe and Mail, Toronto  

**Paul Manson**  
Conference of Defence Associations Institute (CDAI), Ottawa  

**Robert J. S. Gibson**, Chair  
Calgary Highlanders/Entrepreneur, Calgary  

**Robert T. Booth**  
Bennett Jones LLP, Calgary  

**Brian Flemming**  
Private Consultant, Halifax  

**Jack L. Granatstein**  
Author, Historian, Toronto  

**Bob Nicolay**  
Calgary Olympic Development Association, Calgary  

**David Pratt**  
Canadian Red Cross, Ottawa  

**Gordon Smith**  
University of Victoria, Victoria  

**Denis Stairs**  
Professor Emeritus - Dalhousie University, Halifax  

**CDFAI 2006 Board of Directors**

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The Dominion Institute, Toronto  

**Reford MacDougall**  - withdrawn (August 2006)  
MacDougall McConnell Communications Inc., Montreal  

**R. Michael Mears**  
Retired Businessman, London-ON  

**Robert S. Millar**  
CDFAI President, Calgary  

**Jo-Anne Ring**  
Coordinator, Programs & Administration  

**CDFAI Staff**