



# innovation now

**CANADA FOUNDATION  
FOR INNOVATION**  
Annual Report 2010-11

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Canada Foundation for Innovation  
Fondation canadienne pour l'innovation



The Canada Foundation for Innovation (CFI) is a critical pillar in Canada's vibrant research ecosystem — an ecosystem created through sustained investments by the Government of Canada. Together, the CFI, the Centres of Excellence for Commercialization and Research, the research funding agencies and programs such as the Canada Research Chairs, the Canada Excellence Research Chairs, the Vanier Canada Graduate Scholarships and the Banting Postdoctoral Fellowships are producing the knowledge, the talented people and the facilities Canada needs to become more innovative and competitive.



With 40 percent of Canadian women and 45 percent of men expected to develop **cancer** during their lifetimes, there are few Canadians who have not somehow been touched by the disease.

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The CFI has invested

**\$ 362 million**

in supporting research for innovative treatments, survivor support and the elusive cure for cancer.

## CFI OVERVIEW

Created by the Government of Canada in 1997, the CFI strives to build our nation's capacity to undertake world-class research and technology development that benefits Canadians and the global community. Thanks to CFI investments in state-of-the-art infrastructure, Canadian universities, colleges, research hospitals and non-profit research institutions are attracting and retaining the world's top research talent, training the next generation of researchers, supporting private-sector innovation and creating high-quality jobs that strengthen Canada's position in today's knowledge economy.

### What is research infrastructure?

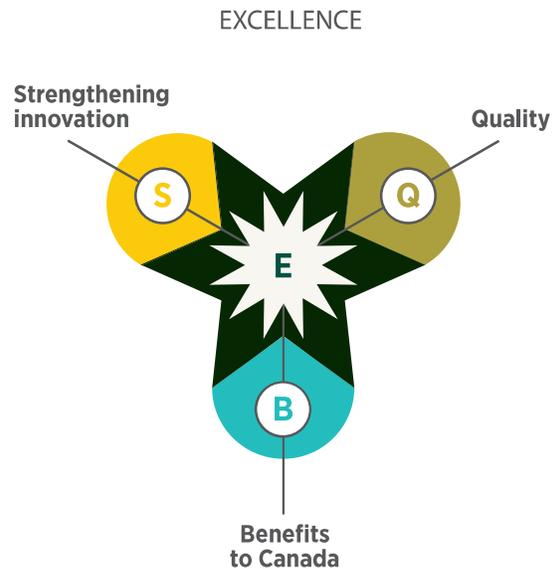
The infrastructure funded by the CFI includes the state-of-the-art equipment, laboratories, databases, specimens, scientific collections, computer hardware and software, communications linkages and buildings necessary to conduct leading-edge research.

### And what does it do for Canada?

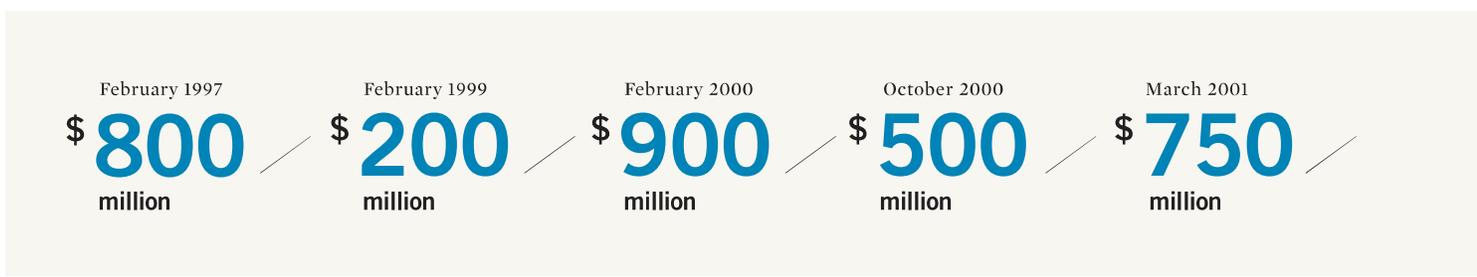
State-of-the-art infrastructure allows researchers to push the boundaries of knowledge, explore the unknown and generate exciting outcomes that benefit humankind. It helps institutions attract, retain and train the top researchers from around the globe and fosters collaboration among the academic, private, public and non-profit sectors on a range of projects and across many disciplines. The solid platforms of research infrastructure being established in Canadian institutions are serving to support business innovation and private-sector research and development.

### How does the CFI fund infrastructure?

The CFI has established a rigorous, competitive and independent merit-review process that rewards excellence. The CFI relies on experts from across Canada and around the world to ensure that only the very best projects receive funding. CFI funding is awarded to institutions, not individual researchers, and all funding proposals must support an institution's strategic research plan.



### Government of Canada investments in the CFI



Eligible Canadian institutions apply to the CFI through a suite of funds, and all applications are assessed using three broad criteria:

- **Quality of the research** and its need for infrastructure;
- Contribution to **strengthening the capacity for innovation**;
- **Potential benefits** of the research to Canada.

The CFI funds up to 40 percent of a project's research infrastructure costs. This funding is then leveraged to attract the remaining investment from partners in the public, private and non-profit sectors. To date, the CFI has committed almost \$5.4 billion in support of 7,100 projects at 132 research institutions in 65 municipalities across Canada. This initial investment, leveraged by funding partners, has resulted in an overall \$12 billion investment in research infrastructure in Canadian institutions since 1997.

What does the CFI fund?

**CFI amount**  
Total \$4,423,867,355\*

**Social sciences and humanities**  
\$104,399,285

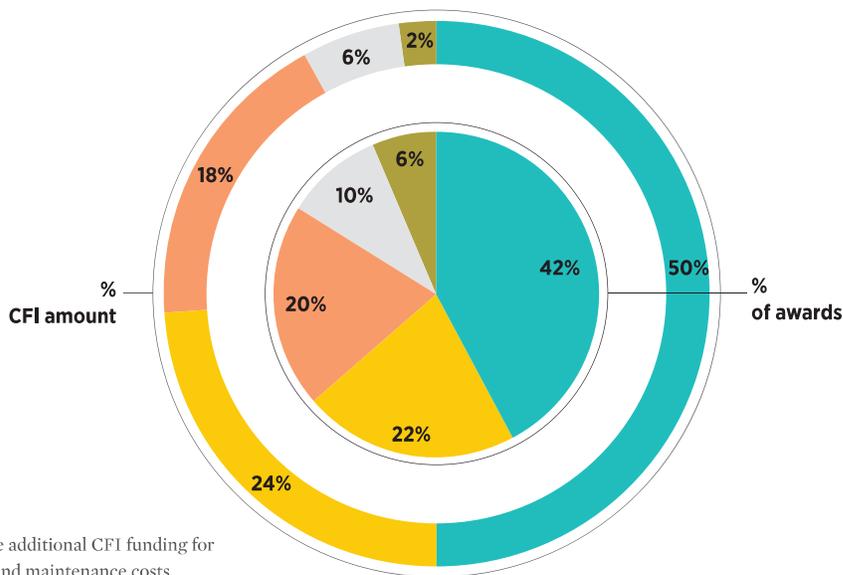
**Environment**  
\$262,320,064

**Engineering**  
\$807,380,231

**Sciences**  
\$1,049,544,774

**Health**  
\$2,200,223,001

\* This total does not include additional CFI funding for infrastructure operating and maintenance costs.



**Number of awards**  
Total 7,100 awards

**Social sciences and humanities**  
470 awards

**Environment**  
693 awards

**Engineering**  
1,424 awards

**Sciences**  
1,531 awards

**Health**  
2,982 awards



\* Budget 2009 provided the CFI with \$150 million to add to the 2009 Leading Edge and New Initiatives funds competition and \$600 million for one or more competitions to be launched by the end of 2010.

## MESSAGES

**From the Chair**

The Canada Foundation for Innovation has long been known as the organization that helped bring this country's research institutions into the new millennium equipped with the state-of-the-art tools necessary to attract and retain the best researchers in the world. It has played an instrumental role in moving Canada into a new era of cutting-edge research.

But the CFI has made an impact beyond the labs and research centres of Canada's colleges, universities and hospitals. Its investments have laid down a foundation of vital infrastructure that is creating opportunities for communities to engage and interact with this country's research enterprise.

Every day, I see how CFI-funded infrastructure is fostering this link. I see universities, colleges and research centres working together, sharing their infrastructure to tackle common research challenges that benefit the people of their communities. I see these same institutions collaborating with local businesses in lending their expertise — and equipment — to develop

new or improved products and processes that meet practical business needs.

I also see the CFI's significant impact on local economies. Whether through the construction of buildings, the manufacturing of specialized equipment or the administration and management of CFI-funded projects, the CFI is helping create high-quality, high-paying jobs. And by funding 40 percent of any given project, the CFI is ensuring that public, private and non-profit partners have a financial stake in — and, therefore, believe in — the research being conducted in their local institutions.

This strong foundation of infrastructure will resonate in our communities for years to come, for students trained on state-of-the-art infrastructure are gaining the skills they require not only to conduct advanced research but also to serve and work in their communities. They have what it takes to compete in the new economy.

I have witnessed the CFI's influence in my own community, and now, as Chair of its Board of Directors, I have seen the foundation's capacity to build stronger communities right across the country. I look forward to working with the Members of the foundation, my fellow Directors and CFI management to help continue the organization's contributions to serving Canada and Canadians.



A handwritten signature in black ink, appearing to read 'Kevin P. D. Smith'.

Dr. Kevin P. D. Smith

## From the President and CEO

It has been an exciting year for me in my new position as President and CEO of the Canada Foundation for Innovation. It has also been an exciting year for the CFI as an organization, with the launch of a new suite of funds that will advance its mandate of enhancing research capacity at Canadian research institutions.

When I began my position in August 2010, the CFI had just signed a new funding agreement with the Government of Canada to invest the \$600 million provided in Budget 2009. This agreement allows the CFI to address two significant priorities facing Canada's research community: funding for major science initiatives and funding that will foster stronger collaboration between colleges and industry.

Often referred to as "big science," Canada's major science initiatives address leading-edge scientific issues of such significance, scope and complexity that they require unusually large-scale facilities and equipment, substantial human resources, and complex operating and maintenance

activities. With the launch of a Major Science Initiatives (MSI) Fund, the CFI ensures that these facilities remain at the leading edge by contributing to their operating and maintenance costs.

Canada's colleges play a central role in supporting Canadian business innovation. By providing colleges with state-of-the-art infrastructure, the CFI will help boost their capacity to conduct applied research and technology development that will enable them to attract industrial partners and expand their partnership opportunities.

These kinds of programs are allowing the CFI to bring top researchers together with world-class infrastructure to create a training ground for the next generation and a field of opportunity for private-sector industry. Such fertile collaborations provide a foundation for reshaping a modern and innovative workforce in Canada.

As President and CEO of the CFI, I am looking forward to maintaining the organization's legacy and seeing that it continues to grow to meet the evolving needs of this country's outstanding research institutions and talented researchers — ensuring that they are superbly equipped to innovate and compete with the best in the world.



A stylized, handwritten signature in black ink, appearing to read "Gilles Patry".

Dr. Gilles G. Patry

Between 2008 and 2009, direct employment in the Canadian **forest industry** fell by 13 percent. For about 200 Canadian communities, where the forest sector makes up at least 50 percent of the economic base, this has been a significant blow.

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The CFI has invested

**\$ 45 million**

in finding ways to halt pest infestations, develop sustainable forest management practices and get people back to work.



**2010-11 HIGHLIGHTS**

In July 2010, the CFI signed a new funding agreement with the Government of Canada for the \$600 million allocated in Budget 2009. The funds will be used to develop two new programs that respond to the needs of the college community and to the operation and maintenance of Canada's "big science" projects. It will also be used to build on existing CFI funds.

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## Developing new funds

### College-Industry Innovation Fund

The College-Industry Innovation Fund (CIIF) will enhance the capacity of colleges to support business innovation in Canada by providing them with state-of-the-art, industry-relevant research infrastructure.

Throughout the fall of 2010, the CFI consulted the Canadian college community, college associations and provinces and territories about the new \$25 million fund to help ensure that it was well aligned with the needs of the college community and would fulfill the need for a national funding mechanism dedicated to colleges.

The call for proposals for the CIIF was launched in mid-December 2010 with two funding streams. The first aims to enhance existing applied research and technology development capacity in colleges, and the second will build on the research infrastructure associated with projects that qualify for Five-Year College and Community Innovation Program-Innovation Enhancement (CCI-IE) grants (a joint initiative between the CFI and the three federal funding agencies).

### Major Science Initiatives Fund

By contributing to stable and predictable funding of operating and maintenance costs, the Major Science Initiatives (MSI) Fund will ensure that CFI-funded "big science" facilities remain at the leading edge and will enable researchers to undertake world-class research and technology development that leads to

social, economic and environmental benefits to Canada. The fund will also promote the adoption of best practices in governance and management of Canada’s MSIs.

The CFI launched the MSI fund on December 15, 2010, and evaluated the eligibility of several MSIs in early 2011. On March 25, 2011, five MSIs were invited to submit funding proposals in the fall of 2011: the Canadian Light Source, Compute Canada, Ocean Networks Canada, Ocean Tracking Network and SNOLAB.

## Building on existing funds

### Leaders Opportunity Fund

The Leaders Opportunity Fund (LOF) helps universities attract and retain top researchers through the acquisition of infrastructure for leading research faculty or the creation of competitive packages of research support, including infrastructure and operating and maintenance funding.

The LOF is a key mechanism for universities in their recruitment and retention initiatives, and in 2010-11, the CFI committed almost \$75 million to 419 projects through the fund. The Small Institution Fund was created under the LOF to recognize that small universities — those with less than 0.2 percent of the total sponsored research income — need more opportunity to attract and retain top researchers. The CFI also developed a flexible application schedule, allowing institutions to submit LOF applications to support their Canada Excellence Research Chairs.

### Leading Edge Fund and New Initiatives Fund

Leading Edge Fund (LEF) projects sustain and enhance the most advanced research and technology development efforts already supported by past CFI investments, while New Initiatives Fund (NIF) projects build Canada’s capacity in promising new areas of research and technology development.

To help in the design and development of the new \$155 million LEF/NIF competition, the CFI consulted with its stakeholders and found broad support for the fund to be launched in the fall

### Total amount invested and projects funded under the LOF (2010-11)

Projects < \$1 million

**312**

\$52,006,442

Projects associated with Canada Research Chairs

**87**

\$11,088,981

Projects associated with three federal funding agencies

**5**

\$1,001,908

Projects of \$1-2 million

**15**

\$10,419,711

Total

**419**

projects

\$74,517,042

of 2011. Despite the reduced budget for the competition, the CFI will continue to accept NIF applications, but funding decisions will focus on keeping previous LEF/NIF investments at the leading edge.

### Infrastructure Operating Fund

The Infrastructure Operating Fund contributes to the incremental operating and maintenance costs of the infrastructure projects funded by the CFI. Institutions are allocated up to 30 percent of the CFI contribution to the capital costs of a project.

## Additional activities

### Automotive Partnership Canada

In 2010-11, the CFI continued its involvement in Automotive Partnership Canada (APC), a joint \$145 million program funded by the Natural Sciences and Engineering Research Council, the National Research Council, the Social Sciences and Humanities Research Council and the Canada Excellence Research Chairs Program to support significant, collaborative, industry-driven research and development to enhance Canada's automotive research capacity.

This year, the CFI invested \$1.6 million in two APC projects: the development of a hybrid-electric roadster (a partnership between Université de Sherbrooke and BRP) and the development of an economical and lighter integrated thermal management system for hybrid-electric vehicles (a partnership between Simon Fraser University and Future Vehicle Technologies).

### The CFI Awards Management System

In 2010-11, the CFI began rolling out its new Awards Management System (CAMS) for the launch of the College-Industry Innovation Fund. CAMS is a secure web portal that eligible research institutions and their researchers use to apply for CFI funding, upload supporting documents, collaborate with other researchers to submit proposals and view the progress of and decisions on their proposals. The system will continue to be phased in as new programs are launched.

Committed by the CFI Board  
1998-2011<sup>\*(A)</sup>

#### Funds

Total \$5,381 M



\*(A) See next page.

Projected commitments by the CFI Board 2011-14<sup>\*(B)</sup>

■ 1997 Funding Agreement ■ 2010 Funding Agreement (Last Amended 2009)



**Committed by the CFI Board 1998-2011 (A)**

\$5,381M

**Projected commitments 2011-2014 (B)**

\$809M

TOTAL FUNDS

**\$6,190M**

\* Cumulative grants awarded to March 31, 2011, are \$5,414 million; of this amount, \$33 million will be unused by eligible recipients (as confirmed by final financial reports as at March 31, 2011) and recommitted in the future.

## Remaining accountable to Canadians

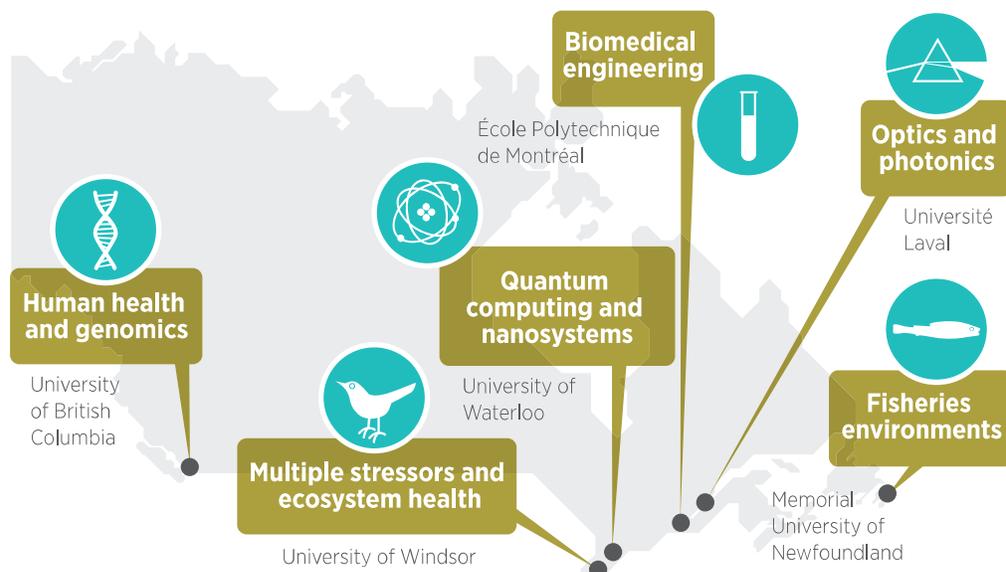
The CFI is committed to the highest level of accountability and places great importance on communicating the impacts of its research infrastructure investments and demonstrating how these impacts contribute to achieving the CFI's objectives.

### Evaluating investments. Measuring outcomes.

Each year, the CFI collects and analyzes information as part of its accountability to government and to inform its future direction and program planning.

The outcome measurement study (OMS) is a unique, holistic evaluation tool created by the CFI to assess the outcomes of its funding in a particular multidisciplinary research theme at a given institution. The OMS has been instrumental in pointing out the wide-ranging impacts and outcomes of CFI funding, from research productivity to technology transfer and socio-economic benefits. It has also helped guide institutions in their strategic research planning. The novel aspects of the methodology were recognized by *Research Evaluation*, a peer-reviewed international journal, in December 2010.

The CFI conducted six OMS visits in 2010-11:

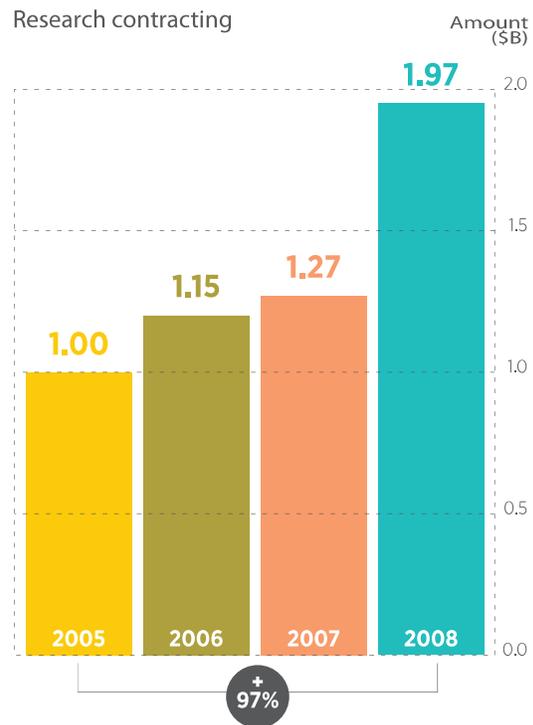


The Performance, Evaluation, Risk and Audit Framework (PERAF) helps guide CFI activities. It assesses the key risks involved in the CFI's achieving its objectives, along with risk management strategies, and includes plans for collecting and reporting information on CFI performance. The CFI reviewed the PERAF over the past year in response to its new funding architecture.

A 10-year evaluation of the Canada Research Chairs (CRC) Program looked at the outcomes of the more than \$300 million in research infrastructure the CFI has invested in the program. The evaluation, overseen by the CFI and the federal funding agencies, found that the CFI contribution to the CRC Program had a direct impact on the recruitment and retention of leading researchers, bolstered

### Special study: The value of research contracting in Canada

The CFI was part of a 10-member consortium, which included Industry Canada, the federal funding agencies and others, that sponsored a study of university and hospital research contracting activity in Canada — Knowledge Transfer Through Research Contracting. Combined with recent Statistics Canada data, the study suggested that contracting with a university or college for creating specific knowledge is seen by external organizations as an effective way of supporting innovation and commercialization. Foreign sources accounted for almost one-third of research contracts. The study also found that contract research provides universities with funds for research overhead and learning opportunities for many students and postdoctoral fellows, who gain experience with external organizations. The data suggest that research contracting totalled \$1.15 billion in 2006 and employed some 11,000 to 12,000 highly qualified personnel across Canada.



By 2050, **energy supplies** must double if we are going to meet the energy demand of all households worldwide. How do we meet the world's growing energy needs?

The CFI has invested  
**\$ 139**  
 million

in researching cleaner, more effective ways of extracting traditional energy resources, and investigating the potential for renewable energy.

the research capacity of chairholders, contributed significantly to the attraction and training of highly qualified personnel and played a crucial role in enabling universities to develop a comparative advantage in strategic areas of research.

### Reporting and monitoring financial performance

CFI funds are invested in accordance with its investment policy and strategy and its funding agreement. The CFI makes its investment decisions with the principal objective of preserving capital to meet future cash requirements. Consequently, it uses a buy-and-hold strategy in which investment maturities match its forecasted cash requirements. Despite the credit crisis, the CFI has not only preserved its capital but also experienced good returns on its investments.

In 2010-11, the CFI conducted 11 monitoring visits/preliminary meetings and 23 contribution audits. Monitoring visits and preliminary meetings allow the CFI to mitigate its key risks by assessing the adequacy and effectiveness of the policies, processes and controls that are in place in institutions for the management of CFI-funded projects. The CFI also conducts contribution audits of projects, using a risk-based approach, to select the institutions that will be visited and the projects that will be subject to an audit. These activities help ensure that

CFI funds are being used for their intended purpose and in accordance with the terms and conditions of award agreements and CFI policies and guidelines.

### Communicating to Canadians

The CFI is actively engaged in the national conversation on research and innovation in Canada through a range of public affairs, external relations and communications activities. In its communication with governments, stakeholders and the public, the CFI highlights the key results of its programs and of the research enabled by its investments.



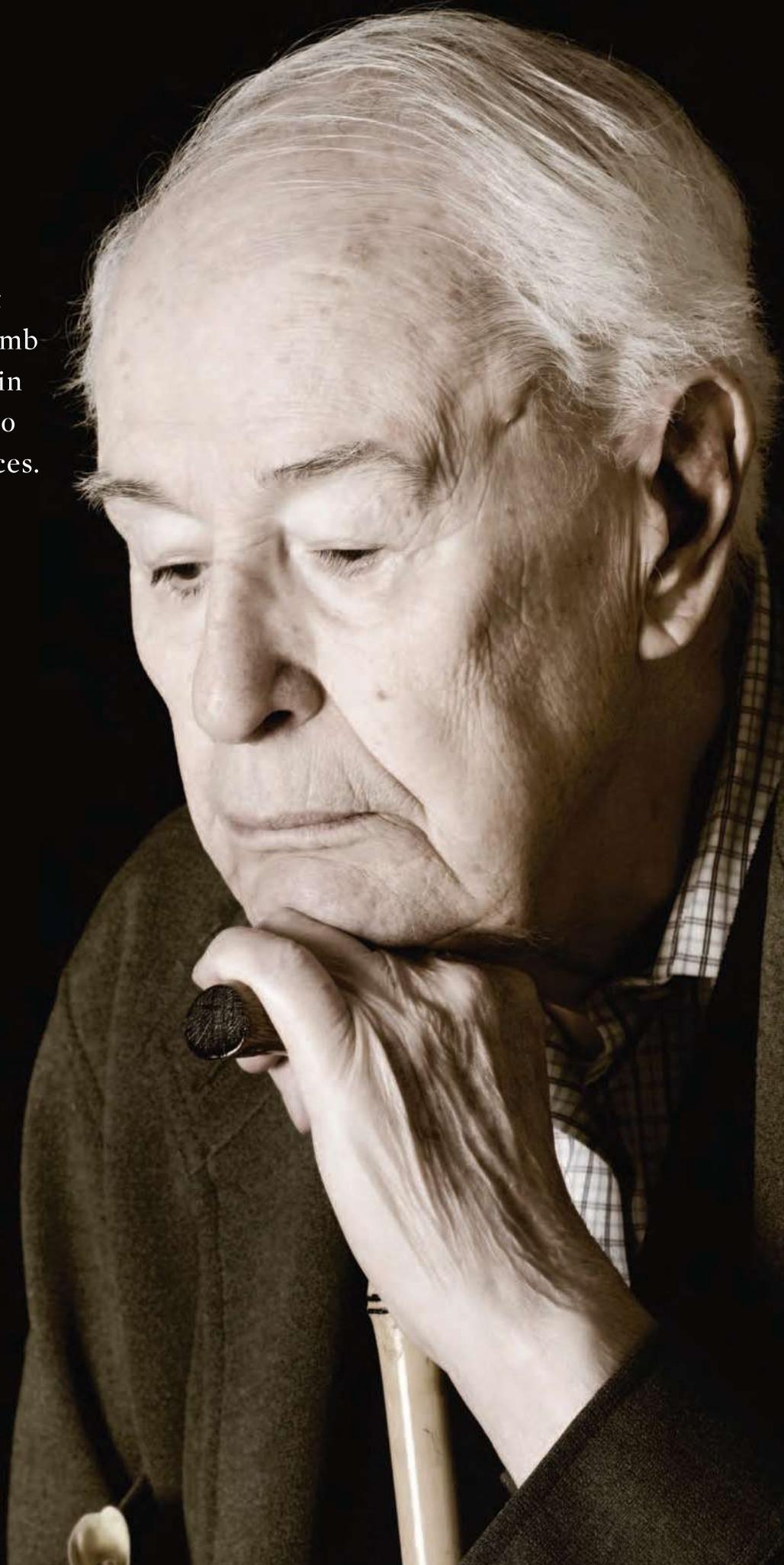
The **Alzheimer's** Society estimates the cost of dementia in Canada to be about \$22 billion a year. It projects the number to climb to \$153 billion a year within a generation if there are no significant medical advances.

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The CFI has invested

**\$ 13 million**

in helping researchers meet their goal of finding treatments for Alzheimer's disease within the next decade.



## GOVERNANCE

### Board of Directors

In 2010-11, the CFI Board of Directors met in June 2010 in Ottawa (which included the annual meeting of CFI Members), in November 2010 in Fredericton and in March 2011 in Edmonton. The CFI Board is composed of a maximum of 13 individuals from a variety of backgrounds. Each Director has a unique perspective and understanding of the research community and brings expertise from one or more of the private, institutional, academic, research or government sectors. The Government of Canada appoints six Directors, including the Chair, while the remaining Directors are appointed by CFI Members. Directors are nominated and appointed for three-year terms.

### CFI Board of Directors

Kevin P. D. Smith, Chair  
 Robert J. Giroux, Vice-Chair  
 Sheila A. Brown  
 Natalie Dakers  
 Suzanne Fortier  
 Albert Friesen  
 Liz Harrison  
 Linda Hohol  
 Michel Kelly-Gagnon (appointed June 2010)  
 Ross McCurdy  
 Louise Proulx  
 Gordon F. Stovel (appointed March 2011)  
 John Weissenberger

#### Term that expired in 2010-11

Elizabeth Cannon (June 2010)

### Committees

#### Audit and Finance

Ross McCurdy, Chair  
 Natalie Dakers  
 Albert Friesen  
 Linda Hohol  
 Kevin P. D. Smith

#### Investment

Linda Hohol, Chair  
 Ross McCurdy  
 Kevin P. D. Smith

#### Governance and Nominating

Robert J. Giroux, Chair  
 Sheila A. Brown  
 Liz Harrison  
 Louise Proulx  
 Kevin P. D. Smith  
 John Weissenberger

Two CFI Members, Marie-Andrée Mallette and one vacancy, also participate in the nomination discussions and recommendations of Board Directors and Members.

## Attendance

The Directors of the CFI Board take their role seriously and strive to be active participants in all Board and Committee meetings. Their impressive attendance rates reflect their tremendous dedication to the CFI.

Director	Board meetings	Committee meetings
Sheila A. Brown	3/3	3/3
Natalie Dakers	2/3	1/3
Suzanne Fortier	1/3	N/A
Albert Friesen	3/3	2/2
Robert J. Giroux	2/3	3/3
Liz Harrison	3/3	2/3
Linda Hohol	3/3	6/6
Michel Kelly-Gagnon	2/2	N/A
Ross McCurdy	3/3	6/6
Louise Proulx	2/3	2/2
Kevin P. D. Smith	3/3	5/7
Gordon F. Stovel	1/1	N/A
John Weissenberger	3/3	1/2
<b>Left Board during year</b>		
Elizabeth Cannon	1/1	2/3

## Members

The Board of Directors reports to Members — a higher governing body similar to a company's shareholders but representing the Canadian public. Members are nominated and appointed for a five-year term. They meet in June each year

and are responsible for appointing up to seven of the 13 Board Directors, appointing external auditors, reviewing audited financial statements and approving the annual report prior to its distribution at the Annual Public Meeting.

Members David Fung and Roland Hosein are Co-Chairs, while Marie-Andrée Mallette participates in the nomination discussions and recommendations of Board Directors and Members at meetings of the Board's Governance and Nominating Committee.

## CFI Members

David Fung, Co-Chair  
 Roland Hosein, Co-Chair  
 John Anthony Boeckh  
 Harold Cook  
 Gail Dinter-Gottlieb  
 Linda Humphreys  
 Marie-Andrée Mallette (Nominating Committee participant)  
 Rick Miner  
 Heather Munroe-Blum  
 Leigh Murphy  
 Michel Nadeau  
 Indira Samarasekera

## Ranges of remuneration Board Directors and Members

To determine remuneration, the Board uses guidelines established by the Government of Canada (Remuneration Guidelines for Part-time Governor in Council Appointees in Crown Corporations). Directors who opt to receive remuneration from the CFI are entitled to an annual retainer of \$5,000. Committee Chairs receive \$7,500, and the Board Chair receives \$10,000. Directors are also entitled to receive

a per diem fee of \$750 for attending Board or committee meetings and a \$500 fee for attending a committee meeting associated with a Board meeting. Members are not entitled to any remuneration. Members and Directors may, however, be reimbursed for any reasonable out-of-pocket expenses incurred while performing their duties or attending CFI meetings. In 2010-11, the remuneration of Board Directors ranged from \$0 to \$16,040.

### CFI Management (Officers)

For the fiscal year ending March 31, 2011, compensation for CFI staff was within the following annual salary ranges:

Eliot A. Phillipson (left in June 2010) and Gilles G. Patry (joined in August 2010), President and CEO: \$200,000 to \$280,000

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Robert Davidson, Vice-President, Programs and Planning (joined in January 2011): \$132,600 to \$183,400

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Manon Harvey, Vice-President, Finance and Corporate Services: \$132,600 to \$183,400

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Pierre Normand, Vice-President, External Relations and Communications (joined in January 2011): \$132,600 to \$183,400

### Employees

(whose remuneration exceeds \$100,000, including any fees, allowances or other benefits paid in year)

Director, Programs:  
\$105,000 to \$140,100

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Director, Communications:  
\$91,400 to \$122,000

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Director, Corporate Services:  
\$91,400 to \$122,000

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Director, Evaluation and Outcome Assessment:  
\$91,400 to \$122,000

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Director, Finance:  
\$91,400 to \$122,000

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Manager, Leaders Opportunity Fund:  
\$83,000 to \$110,600

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Manager, Financial Monitoring:  
\$83,000 to \$110,600

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Senior Advisor, External Relations and Communications: \$83,000 to \$110,600

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Senior Programs Officers:  
\$83,000 to \$110,600

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Senior Programs Planning Officer:  
\$83,000 to \$110,600

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Manager, Administration:  
\$74,800 to \$99,200

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Senior Financial Monitoring Officer:  
\$74,800 to \$99,200

It is estimated that every year between 11 million and 13 million Canadians suffer from illnesses caused by **food-borne bacteria.**

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The CFI has invested

\$ **13** million

in making our food safer to eat.



## THE YEAR AHEAD: 2011-12

In 2011-12, the CFI will begin setting a strategic road map for its future and will continue to roll out programs associated with the \$600 million from Budget 2009.

As part of a network of federal research funding organizations, the CFI is dedicated to fostering a dialogue to better coordinate the way research is supported in Canada and to informing the Government of Canada about pressing science and technology issues facing the country.

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### A road map for the future

In 2009, the CFI developed a strategic plan for the implementation of the \$600 million from Budget 2009. Now that a new funding agreement is in place for that allocation, the CFI sees the need to expand on that plan to address emerging priorities in Canada's research environment and to ensure that the CFI contributes more directly to the country's economic growth and global competitiveness.

Building on the 2009 strategic plan, which was the result of extensive cross-country consultations, the CFI will involve additional key stakeholders — both internal and external — to develop a strategic road map that will set the organization's direction over the next five years.

### Program developments

In an effort to continuously improve its procedures, the CFI will also examine its evaluation and review processes to emphasize the capacity of institutions to operate CFI-funded projects. The CFI will examine various ways in which it can place greater emphasis on sustainability, from the application stage through the review, the project implementation and the ongoing operation.

The CFI will roll out its new funding programs and continue to support its ongoing programs.

**College-Industry Innovation Fund (CIIF):**

The CFI will hold two competitions under each stream of the CIIF starting in June 2011 and expects to support between 35 and 40 new college infrastructure projects. This new funding will help colleges fill current gaps in research infrastructure, which will not only promote a research and development environment that responds to the evolving needs of the marketplace and community but will also ultimately stimulate strong regional economic development and job creation.

**Major Science Initiatives (MSI) Fund:** The \$185 million allocated to this fund will cover a portion of the total eligible operating and maintenance costs of an MSI from 2012-13 to 2016-17. Funding decisions, which will be based on a comprehensive merit review of scientific excellence, governance and management, will be made in March 2012. By that date, the CFI will also have developed best practice expectations for the governance and management of MSIs, which will be used to assess them over the five-year period.

**Leading Edge Fund and New Initiatives**

**Fund (LEF/NIF):** The CFI will develop the parameters for the next competition early in the fiscal year and will seek Board approval at its June 2011 meeting. Following the launch of the next LEF/NIF competition in the fall of 2011, the CFI will accept applications in the spring of 2012 and its Board of Directors will make final funding decisions at its fall 2012 meeting.

**Leaders Opportunity Fund (LOF):** The CFI will continue to receive and review LOF applications, granting infrastructure awards to outstanding candidates recommended by research institutions.

**Automotive Partnership Canada (APC):** The CFI will continue to accept and assess proposals on an ongoing basis for the APC to ensure flexibility and responsiveness to industry needs and opportunities.

**Infrastructure Operating Fund:** The CFI will continue to provide support for the operating and maintenance costs of its funded research infrastructure at the rate of 30 percent of the CFI award.

More than 25 million Canadians — or about 75 percent of the population — use the Internet. This is one of the highest usage rates in the world. Can our **telecommunications** systems keep up with our desire to stay connected?

The CFI has invested

**\$ 189 million**

in information and communication technology to ensure Canada stays at the cutting edge of this rapidly evolving sector.

## Evaluating and communicating outcomes

The CFI will evaluate the methodology, process and results of the outcome measurement study (OMS) to ensure that it remains an effective tool in assessing the outcomes of CFI investments. The CFI will also evaluate the relevance, effectiveness and success of a previous funding mechanism, the International Fund. This evaluation will inform the design of prospective initiatives with similar goals.

The Performance, Evaluation, Risk and Audit Framework will be used to assess the CFI's progress and ability to achieve its objectives in 2011-12. It will be submitted to Industry Canada by July 2011. It will also undertake a socio-economic impact assessment to examine how CFI-funded investments are contributing to such factors as productivity improvements, revenue generation and cost savings to society through new policies and processes. The CFI will conduct three OMS visits in the coming year.

The CFI will undertake monitoring visits and audits at funded institutions to verify that funds are being used appropriately and in

compliance with institutional agreements, as well as CFI policies and guidelines. It will also submit an annual report of expenditures and achievements for 2011-12 and a corporate plan, including intentions and expectations, for 2012-13. The CFI Board will meet at least three times during the next fiscal year to approve funding recommendations and provide strategic direction.

## Celebrating 15 years

Over its history, the CFI has equipped Canada's research institutions with state-of-the-art infrastructure that has allowed them to conduct the kind of cutting-edge research that competes with the best in the world. With this solid foundation in place, researchers have made incredible discoveries that have been translated into tangible benefits for Canadians — benefits the CFI will highlight and celebrate throughout 2011-12.



**FINANCIAL STATEMENTS**

March 31, 2011

## Independent Auditor's Report

To the Members of the  
Canada Foundation for Innovation

We have audited the accompanying financial statements of the Canada Foundation for Innovation (CFI), which comprise the balance sheet as at March 31, 2011 and the statements of operations and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the CFI as at March 31, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Deloitte & Touche LLP*

Chartered Accountants  
Licensed Public Accountants

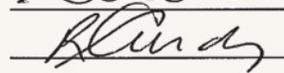
June 14, 2011

## Balance Sheet as at March 31, 2011

	2011	2010
<b>Assets</b>		
Cash	\$ 11,369,617	\$ 26,118,420
Interest and other receivables	10,686,418	11,886,608
Investments (Note 3)	1,701,557,883	1,905,958,014
Advance to European Research Area - Canada project	-	42,646
Prepaid expenses	250,249	231,229
Capital assets (Note 4)	2,536,735	1,413,487
	<b>\$ 1,726,400,902</b>	<b>\$ 1,945,650,404</b>
<b>Liabilities and Net Assets</b>		
Accounts payable and accrued liabilities	\$ 1,592,790	\$ 758,293
European Research Area - Canada project deposits	22,812	-
	<b>1,615,602</b>	<b>758,293</b>
<b>Deferred Contributions (Note 5)</b>		
Expenses of future years	1,722,248,565	1,943,478,624
Capital assets	2,536,735	1,413,487
	<b>1,724,785,300</b>	<b>1,944,892,111</b>
<b>Commitments (Note 7)</b>		
<b>Net Assets (Note 6)</b>	-	-
	<b>\$ 1,726,400,902</b>	<b>\$ 1,945,650,404</b>

APPROVED BY THE BOARD


 \_\_\_\_\_ Director


 \_\_\_\_\_ Director

## Statement of Operations year ended March 31, 2011

	2011	2010
<b>Revenue (Note 5)</b>		
Recognition of deferred contributions related to amounts granted to eligible recipients	\$ 460,104,290	\$ 379,369,095
Recognition of deferred contributions related to current year operations	11,989,388	12,571,160
Amortization of deferred contributions related to capital assets	530,337	469,819
	<b>472,624,015</b>	<b>392,410,074</b>
<b>Expenses</b>		
Grants to eligible recipients	460,104,290	379,369,095
General and administration	11,989,388	12,571,160
Amortization of capital assets	530,337	469,819
	<b>472,624,015</b>	<b>392,410,074</b>
<b>Excess of Revenue Over Expenses</b>	<b>\$ -</b>	<b>\$ -</b>

## Statement of Cash Flows year ended March 31, 2011

	2011	2010
<b>Net Inflow (Outflow) of Cash Related to the Following Activities:</b>		
<b>Operating</b>		
Excess of revenue over expenses	\$ -	\$ -
Items not affecting cash:		
Amortization of capital assets	530,337	469,819
Amortization of deferred contributions related to capital assets	(530,337)	(469,819)
Change in unrealized gain on investments	16,700,842	24,093,734
Net increase in amortization of discount/premium on investments	26,048,658	21,961,950
Net decrease in deferred contributions related to expenses of future years	(424,230,059)	(335,362,992)
	(381,480,559)	(289,307,308)
Changes in non-cash operating working capital items	2,081,125	7,601,445
	(379,399,434)	(281,705,863)
<b>Investing</b>		
Purchase of capital assets	(1,653,585)	(774,526)
Increase in deferred contributions related to capital assets	1,653,585	774,526
Purchase of investments	(1,001,715,946)	(1,380,175,278)
Matured investments	1,163,366,577	1,556,748,839
	161,650,631	176,573,561
<b>Financing</b>		
Grants received (Note 5)	203,000,000	128,600,000
<b>Net Cash Inflow (Outflow)</b>	<b>(14,748,803)</b>	<b>23,467,698</b>
<b>Cash, Beginning Of Year</b>	<b>26,118,420</b>	<b>2,650,722</b>
<b>Cash, End Of Year</b>	<b>\$ 11,369,617</b>	<b>\$ 26,118,420</b>

## 1. Description of business

The Canada Foundation for Innovation (CFI) was incorporated on April 25, 1997, under Part 1 of the Budget Implementation Act, 1997 (Act) for the purpose of making research infrastructure grants to Canadian universities, colleges, hospitals and non-profit research institutions to increase the capability for conducting high-quality research.

Grants received from the Government of Canada and related investment income are administered and invested in accordance with the requirements of the Act and the terms and conditions of the Funding Agreements between the CFI and the Government of Canada.

The CFI is a non-taxable entity under paragraph 149(1)1 of the Income Tax Act (Canada).

## 2. Significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and reflect the following policies:

### Revenue recognition

The CFI follows the deferral method of accounting for contributions that include grants from the Government of Canada and potential donations from other sources.

Externally restricted contributions and related investment income are deferred and recognized as revenue in the year in which the underlying expenditures are incurred. A receivable is recognized if the amount to be received can be reasonably estimated and collection is reasonably assured.

Externally restricted contributions applied toward the purchase of capital assets are deferred and amortized to revenue on a straight-line basis, at a rate corresponding with the amortization rate for the related capital assets.

### Grants to eligible recipients

Grants to eligible recipients are recognized as expenses as the awarded funds are disbursed.

## Financial instruments

Financial assets and financial liabilities are initially recognized at fair value on the balance sheet at the settlement date. After initial recognition, the measurement of financial instruments depends on their classification.

The CFI classifies investments as financial assets held-for-trading and are, therefore, recorded at fair value. Gains and losses as a result of changes in fair value of investments during the year are recognized as restricted revenue earned in the CFI's deferred contributions.

Interest and other receivables are included in the loans and receivables category that is outlined in Section 3855 of the Canadian Institute of Chartered Accountants (CICA) Handbook, *Financial Instruments – Recognition and Measurement*. Accounts payable and accrued charges are included in the other financial liabilities category that is outlined in Section 3855 of the CICA Handbook. Subsequent measurements are recorded at amortized cost using the effective interest rate method. These measurements generally correspond to cost.

The CFI has chosen to apply Section 3861 of the CICA Handbook, *Financial Instruments – Disclosures and Presentation* in place of Sections 3862, *Financial Instruments – Disclosure* and 3863, *Financial Instruments – Presentation*, of the CICA Handbook.

## Investments

Investments are recorded at fair value and are based on the quoted market prices from the independent investment custodian.

## Capital assets

Purchased capital assets are recorded at cost while contributed capital assets, if any, are recorded at fair value at the date of contribution. Repairs and maintenance costs are charged to expense. When a capital asset no longer contributes to the CFI's ability to provide services, its carrying amount is written down to its residual value.

Capital assets are amortized on a straight-line basis using the following annual rate and terms:

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Leasehold improvements	term of the lease
Furniture and other equipment	20%
Computers and software	3-5 years
Award management system	5 years

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Development costs for the CFI award management system are capitalized and amortized when the new functionalities become operational. Development costs are comprised mainly of professional services.

## Use of estimates

According to GAAP, the preparation of financial statements requires the CFI's management to make estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities in the financial statements and accompanying notes. Assumptions are used in estimating the collectability of accounts receivable, useful life of capital assets, accrued liabilities and fair market value of investments. These have been made using careful judgment. Actual results could differ from these estimates.

## Future accounting changes

In December 2010, the Public Sector Accounting Board changed the accounting framework required to be followed by Government Not-for-Profit Organizations. Effective for fiscal years beginning on or after January 1, 2012, Government Not-for-Profit Organizations, including the CFI, will be required to select from either (a) the CICA Public Sector Accounting Handbook, including Sections PS 4200 to PS 4270 or, alternatively, (b) the CICA Public Sector Accounting Handbook without Sections PS 4200 to PS 4270. Early adoption of these new standards is permitted. The CFI plans to adopt the CICA Public Sector Accounting Handbook, including Sections PS 4200 to PS 4270 for its fiscal year beginning on April 1, 2012. The impact of transitioning to this new accounting framework is being analyzed by the CFI at this time.

## 3. Investments

Investments comprise the following financial instruments:

	2011		2010	
	Fair Value	Cost	Fair Value	Cost
Money market funds	\$ 83,760,121	\$ 83,758,320	\$ 70,768,736	\$ 70,770,591
Bonds	933,315,292	932,923,596	1,272,039,953	1,256,608,469
NHA mortgage - backed securities	683,612,297	677,532,258	560,548,616	552,675,416
Amortizing bonds	870,173	919,054	2,600,709	2,778,041
	<b>\$ 1,701,557,883</b>	<b>\$ 1,695,133,228</b>	<b>\$ 1,905,958,014</b>	<b>\$ 1,882,832,517</b>

## Interest rate and market risk

### Interest rate risk

Interest rate risk arises when the value of an investment fluctuates due to changes in market interest rates.

### Market risk

Market risk is the risk that the fair value of an investment will fluctuate because of changes in market prices (other than those arising from interest rate risk), whether those changes are caused by factors specific to an individual investment or its issuer, or factors affecting all similar securities traded in the market.

The CFI's grant commitments do not exceed the total of its investments, related investment income, and grants committed from the government that will be received in future years. The timing of investment maturities is matched to projected cash outflows. The degree of volatility is mitigated by the CFI's policy that it will not invest in shares, warrants or other equities, convertible debt securities, derivatives, swaps, options or futures. As such, management believes that interest rate and market risks are appropriately managed.

Coupon rates for bonds held to maturity range from 2.02% to 6.40%. The rates for mortgage-backed securities range from 2.15% to 6.15% and for the amortizing bond is 7.56%.

### Liquidity risk

Liquidity risk is the risk of not being able to meet the cash requirements in a timely and cost effective manner.

The CFI matches the timing of investment maturities to projected cash outflows and as such, liquidity does not present a significant financial risk to the CFI.

The maturities of money market funds range between April 2011 and May 2011. Bond maturities range between June 2011 and March 2016. The maturities of mortgage-backed security range between July 2011 and April 2016. The amortizing bond matures in June 2011.

### Credit risk

Credit risk arises from the potential that the issuer of an investment will fail to perform its obligations. Concentrations of credit risk exist when a significant proportion of investments are invested in securities with similar characteristics or subject to similar economic, political or other conditions.

It is the CFI's policy to invest only in securities with at least AA investment ratings, or the equivalent. As well, the CFI's investment policy restricts the single largest issuer, in the case of all but AAA Government, to a maximum of 1% to 15% of the total investment portfolio depending on the investment category. As such, management believes that credit risk is appropriately managed.

## 4. Capital assets

Capital assets consist of the following:

	Cost	2011 Accumulated amortization	Net book value	2010 Net book value
Leasehold improvements	\$ 2,423,915	\$ 2,291,483	\$ 132,432	\$ 432,951
Furniture and other equipment	781,968	699,831	82,137	80,336
Computers and software	1,305,786	1,033,311	272,475	320,119
Award management system	2,049,691	-	2,049,691	580,081
	<b>\$ 6,561,360</b>	<b>\$ 4,024,625</b>	<b>\$ 2,536,735</b>	<b>\$ 1,413,487</b>

## 5. Deferred contributions

The CFI currently operates under two active Funding Agreements with the Government of Canada. As at March 31, 2011, the Government of Canada had committed \$4.99 billion in grants to the CFI, of which \$4.09 billion had been received. The terms and conditions of these agreements call for remaining grants to be paid to the CFI annually, subject to sufficient appropriation by Parliament, based on the estimated cash requirements for the year. During the fiscal year, the CFI received \$203 million (2010 - \$128.6 million) related to these agreements.

## Expenses of future years

Deferred contributions related to expenses of future years represent unspent externally restricted grants received to date, together with investment revenue earned, for the purpose of providing grants to eligible recipients and paying for operating and capital expenditures in future years.

	2011	2010
Balance, beginning of year	\$ 1,943,478,624	\$ 2,150,241,616
Add grants received	203,000,000	128,600,000
Add restricted investment revenue earned	49,517,204	57,351,789
Less amount recognized as revenue	(472,093,678)	(391,940,255)
Less amount applied toward capital assets acquired	(1,653,585)	(774,526)
Balance, end of year	\$ 1,722,248,565	\$ 1,943,478,624

Included in restricted investment revenue earned for 2011 is a reduction of \$16,700,842 (2010 - a reduction of \$24,093,734) relating to unrealized gains recognized during the year. The balance of unrealized gain at year end is \$6,424,655 (2010 - \$23,125,497).

## Capital assets

Deferred contributions related to capital assets represent the unamortized amount of restricted grants received and applied toward the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations on the same basis as the amortization of the related capital assets.

	2011	2010
Balance, beginning of year	\$ 1,413,487	\$ 1,108,780
Restricted grants applied toward the purchase of capital assets	1,653,585	774,526
Less amount amortized to revenue	(530,337)	(469,819)
Balance, end of year	\$ 2,536,735	\$ 1,413,487

## 6. Restricted contributions and net assets

The requirements of the Budget Implementation Act, 1997, which governs the CFI and the terms of its Funding Agreements with the Government of Canada, externally imposes restrictions on all of the CFI's net assets. Investment revenue to be earned on the grants received from the Government of Canada is also restricted. Accordingly, the entire net assets of the CFI are deferred and taken into revenue as expenditures are made with no net asset balance outstanding at any time. A statement of changes in net assets has not been prepared since it would not provide additional useful information.

## 7. Commitments

During the year, the CFI awarded grants for a maximum amount of \$98.6 million (2010 - \$806.6 million). Total disbursements to eligible recipients during the fiscal year were \$460.1 million (2010 - \$379.4 million). To date, the CFI has awarded grants for a maximum amount of \$5,414.2 million, of which \$3,786.0 million had been disbursed as at March 31, 2011. The maximum grants awarded to date include \$33.0 million (2010 - \$24.0 million) of grants that will be unused by eligible recipients. This has been confirmed through the final financial reports for infrastructure projects submitted by eligible recipients as at March 31, 2011. The balance of the awarded grants will be recorded as expenses in subsequent years as funds are disbursed.

The CFI's lease agreement for its premises at 230 Queen Street (Ottawa, Ontario) expires July 31, 2011. During the fiscal year, the CFI renewed the lease agreement for a ten-year period ending July 31, 2021. The minimum annual lease payment related to these premises is approximately \$1.2 million.

## 8. Pension plan

The employees of the CFI may elect to become members of the Association of Universities and Colleges of Canada Pension Plan, a defined contribution plan managed by Sun Life Financial Inc. The employer contributions made to the Plan during the year ended March 31, 2011 amounted to \$575,234 (2010 - \$505,988).

## 9. Capital management

In managing capital, the CFI focuses on liquid resources available for operations and to be disbursed to eligible recipients. The CFI's objective is to have sufficient liquid resources to continue operating in accordance with the Funding Agreements between the CFI and the Government of Canada, despite adverse events with financial consequences, and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. The need for sufficient liquid resources is considered in the preparation of an annual corporate plan, including long-term cash flow projections and budget. Disbursements to eligible recipients and actual operating results are monitored and compared to the cash flow projections to ensure availability of sufficient liquid resources. As at March 31, 2011, the CFI has met its objective of having sufficient liquid resources to meet its current obligations.

## 10. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.