



Annual Report
2011–12

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CANADA FOUNDATION FOR INNOVATION | FONDATION CANADIENNE POUR L'INNOVATION

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RESEARCH BUILDS COMMUNITIES

At the Canada Foundation for Innovation, we believe that research builds communities.

One way to ensure Canada's global success is to put our strong research enterprise to work for our communities. A robust innovation system can have a positive impact on local communities when it translates into high quality jobs, industrial growth, new enterprises, improved public infrastructure and services and a cleaner, healthier environment. Vibrant, thriving communities across the country are already doing this, and it is paying off.

The University of Prince Edward Island, for example, plays a critical role in an emerging biosciences cluster, which focuses heavily on industries important to the island community, such as fisheries and agriculture. In Saskatoon, people from every walk of life rallied around the construction of Canada's national synchrotron facility at the University of Saskatchewan. The research being done at the facility has helped revitalize the community, giving it a forward-looking sense of its role in the international research enterprise. And the companies that are part of the oil sands industry in Alberta have recognized the value of the universities and colleges in that province. To ensure they don't undermine the communities in which they operate, they look to researchers to make their industry more efficient and environmentally sound.

Sustained investments by the Government of Canada have created a vibrant research ecosystem in this country. The Canada Foundation for Innovation is a critical pillar in this ecosystem, focusing its funding on research infrastructure — the *foundation* out of which research knowledge is produced, and the focal point for bringing people together from all sectors to discover, solve problems and innovate.

ABOUT THE CANADA FOUNDATION FOR INNOVATION

Created by the Government of Canada in 1997, the Canada Foundation for Innovation (CFI) builds our nation's capacity to undertake world-class research and technology development that benefits Canadians and people around the world. 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.

State-of-the-art research infrastructure is a key asset for Canada

The CFI funds research infrastructure — the advanced equipment, laboratories, databases, specimens, scientific collections, computer hardware and software and communications linkages — which sets the stage for discovery research and fuels innovation. Investing in research infrastructure creates the spaces in which partnerships and collaboration can develop and flourish. It fosters collaboration among the academic, private, public and non-profit sectors on a range of projects and across many disciplines.

GOVERNMENT OF CANADA INVESTMENTS IN THE CFI

February 1997

\$800

million

February 1999

\$200

million

February 2000

\$900

million

October 2000

\$500

million

March 2001

\$750

million

Equipped with world-class infrastructure, researchers can reach out to innovators in all sectors to translate their ideas and knowledge into products and services that can be commercialized and into new processes and technologies that improve efficiency and productivity. Canada's research community has never been so well positioned to support the country's research priorities, and to help advance our economy and our society.

A funding formula that works

The CFI has established a rigorous, competitive and independent merit-review process that rewards research excellence. The CFI relies on experts from around the world to ensure that only the best projects are funded. CFI funding is awarded to institutions, and all funding proposals must support the institution's strategic research plan.

Eligible Canadian institutions apply to the CFI through a suite of funds, and all proposals are assessed on three main criteria: the quality of the research and need for infrastructure; the project's contribution to strengthening the capacity for innovation; and the 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 institutional partners in the public, private and non-profit sectors. To date, the CFI has committed almost \$5.7 billion in support of 7,685 projects at 131 research institutions in 65 municipalities across Canada. CFI contributions, along with those from funding partners, have resulted in a more than \$12 billion investment in research infrastructure in Canadian institutions over 15 years.

February 2003
\$500
million


2006-07
\$80
million

June 2007
\$510
million

February 2009*
\$750
million

March 2012
\$500
million

* 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.



*The Canada Foundation for Innovation
derives its strength from fostering the full
breadth of innovation, from basic to applied.
Basic is the art of detecting hidden patterns
in nature. The applied — every bit as chal-
lenging — is to make the basic work for us.*

Dr. John C. Polanyi
Nobel Prize winner in Chemistry (1986), University of Toronto

MESSAGE FROM THE CHAIR OF THE BOARD AND PRESIDENT & CEO

This quote from one of Canada's pre-eminent scientists is a testament to the changing face of science. Today, our universities, colleges and research hospitals offer a competitive research and training landscape that is among the best in the world. This baseline of excellence allows the Canada Foundation for Innovation (CFI) to build upon this success and tackle new challenges that are emerging when it comes to supporting the country's research enterprise. Our future prosperity as a nation will be linked to our ability to seize opportunities that allow us to connect those who advance knowledge and those who apply it for the benefit of Canadians.

To respond to these challenges, the CFI began to chart a strategic road map for its future at the beginning of fiscal year 2011-12. Developed with input from our stakeholders and informed by various evaluations and surveys, the road map looks at the CFI's role in Canada's research enterprise and identifies key areas the CFI can evolve to meet the future needs of that enterprise. It was adopted by the CFI's Board of Directors in November.

The year also saw the roll-out of programs associated with the 2010 Funding Agreement with the Government of Canada. The CFI Board approved \$11.8 million in funding for research infrastructure at colleges across the country through the College-Industry Innovation Fund. This funding is aimed at boosting the capacity of colleges to conduct applied research and technology development that will attract industrial partners and support business innovation. The CFI also committed \$178.6 million to the Major Science Initiatives Fund to support the operating and maintenance costs of select large-scale research facilities. In addition, a new Leading Edge and New Initiatives fund competition was launched.

This year, we were thrilled to refresh the CFI brand and establish a new tagline — *Research builds communities* — to reflect our belief that the Canadian research enterprise plays an important role in building research partnerships with local industries, creating high-quality jobs and sparking the kind of innovation that can jumpstart local economies. The new website we developed this year, Innovation.ca, tells some of these stories and highlights the CFI's role in helping build our communities.

And just as we were preparing to turn the calendar to begin another fiscal year, the Government of Canada announced a \$500 million investment in the CFI in Budget 2012. This funding will be awarded over five years beginning in 2014-15. We are proud of the continued confidence and value the government places in the CFI's mandate and are thankful for the renewed investment.



Dr. Kevin P. D. Smith
Chair, Board of Directors



Dr. Gilles G. Patry
President & CEO

RESULTS 2011–12

In 2011–12, the CFI set out a strategic road map to chart its future and rolled out programs associated with the funds allocated in the 2010 CFI Funding Agreement with the Government of Canada. The CFI also administered and monitored funds allocated under the previous funding agreement, reviewed applications under its regular funding programs and undertook a range of monitoring, evaluation and communications activities.

Strategic road map

At the beginning of 2011–12, the CFI engaged in a process to develop a road map that would outline the changing needs of Canada's research enterprise. Built on information gathered from internal consultations and the various evaluations, consultations and stakeholder surveys the CFI has conducted over the past few years, the road map was created as an evolution of the strategic plan for the use of \$600 million from the 2009 federal budget allocation, which was adopted in 2010. The road map was approved by the CFI Board at its November meeting and disseminated to stakeholders in January 2012. Feedback from the research community was presented to the Board in March 2012 and will be reflected in the implementation strategy of the road map.

The road map looks at the role the CFI plays in supporting Canada's research enterprise and at the evolving environment in which it now operates. It examines the CFI mandate — to support world-class research, world-class talent and world-class innovation — and proposes a number of strategic directions, including: investing in the highest levels of excellence; sustaining and enhancing the capacity of Canada's research enterprise; forging productive partnerships; and building global influence.

The CFI road map also aims to chart the evolution of the organization by identifying areas where the CFI could shift its approach in order to respond to the current and anticipated needs of the research community — and of the country. The shifts explored in the document fall into three categories: applying the principle of excellence across a broader spectrum of infrastructure funding; supporting the full spectrum of research, from discovery to innovation; and working together to consult, coordinate, collaborate and communicate.

Delivering programs

/ GOAL

To attract and retain the world's top research talent

LEADERS OPPORTUNITY FUND (LOF): *helps institutions attract and retain top researchers*

Through an ongoing merit-review process, the CFI committed approximately \$82.3 million to 463 projects through the LOF.

/ GOAL

To enable world-class research and technology development that leads to social, economic and environmental benefits for Canada

LEADING EDGE FUND (LEF) AND NEW INITIATIVES FUND (NIF): *sustains and enhances previous CFI investments and supports promising new research areas*

The LEF/NIF projects funded in the 2009 competition completed the award finalization process in 2011–12 and monitoring continued to ensure they were being implemented effectively.

The results of consultations with stakeholders after the signing of the 2010 CFI Funding Agreement informed the design and delivery of the 2012 LEF/NIF competition. Launched September 15, 2011, full proposals are due April 26, 2012, and final funding decisions will be made by the CFI Board of Directors in November 2012.

MAJOR SCIENCE INITIATIVES (MSI) FUND: *contributes to the stable and predictable funding of operating and maintenance costs of large-scale research facilities*

The CFI undertook extensive consultations and discussions with the research community, funding partners and Industry Canada on the design and implementation of the MSI Fund. It also consulted with the provincial governments that have been providing support to large science facilities. To support the Government of Canada's investments in science, technology and innovation, the CFI will contribute up to \$178.6 million to the operating and maintenance costs of CFI-funded large scale research facilities, and also provide governance and management oversight of these facilities based on best practices.

INFRASTRUCTURE OPERATING FUND (IOF): *helps to maximize the efficient use of CFI-funded research infrastructure*

The IOF contributes to the incremental operating and maintenance costs associated with CFI-funded projects. An institution's IOF allocation is calculated as 30 percent of the finalized CFI contribution for eligible projects. For the year ended March 31, 2012, the CFI paid a total of \$121 million of IOF funds to institutions for a cumulative total of \$508 million.

GOAL

To support private-sector innovation and commercialization

In addition to the CFI's overall strategic approach to fostering partnerships and collaboration by providing infrastructure support to researchers who receive funding through programs such as the NSERC Industrial Research Chairs, the NSERC Collaborative Research and Development Program, and the Centres of Excellence for Commercialization and Research, the CFI was directly involved in two initiatives specifically designed to support inter-sectoral research partnerships.

COLLEGE-INDUSTRY INNOVATION FUND (CIIF): *enhances the capacity of colleges to foster business innovation in Canada by supporting research partnerships between colleges and the private sector*

CIIF proposals were received in the fall of 2011, and in March 2012, the CFI Board approved \$11.8 million in funding for 17 projects at 16 colleges under two funding streams. Stream 1 proposals came directly from colleges that have established partnerships with private sector organizations, and stream 2 proposals were jointly submitted to NSERC's College-Community Innovation Program, Innovation Enhancement Grants.

AUTOMOTIVE PARTNERSHIPS CANADA (APC): *supports R&D that will help the Canadian automotive sector become more innovative*

The APC Program funds transformative, integrated research projects that are industry-driven and align with one of the program's strategic research themes: improving the automobile's environmental performance and impact; developing the cognitive car; or advancing the next generation of manufacturing. Proposals are accepted on an ongoing basis to ensure flexibility and responsiveness to industry needs and opportunities. In 2011–12, four APC proposals with a CFI research infrastructure component were approved for funding of \$2.94 million. The total CFI investment to date, including Infrastructure Operating Funds, is \$7 million.

BRITISH COLUMBIA

SUSTAINABLE CANADIAN CAVIAR FEEDS A GLOBAL MARKET

Sechelt-based Target Marine Hatcheries is producing Canada's first farmed white sturgeon roe called Northern Divine Caviar. As the only centre in Canada with white sturgeon old enough to spawn, **Vancouver Island University's** International Centre for Sturgeon Studies supplied the hatchery with eggs from captive wild Fraser River sturgeon stock in 2000. By 2011, some of the fish had matured enough to be harvested for caviar, which was rated among the best in the world the same year. This sustainable source of caviar will help fill dwindling global supplies.



Remaining accountable to Canadians

/ GOAL

To enhance accountability to responsibly steward public funds

Collecting, analyzing and communicating the impacts of CFI-funded infrastructure is a key part of the CFI's accountability to the Canadian public, the Government of Canada and its public and private-sector partners.

Assessing impacts

PERFORMANCE, EVALUATION, RISK AND AUDIT FRAMEWORK (PERAF)

The PERAF helps guide CFI activities. It assesses the key risks involved in achieving the CFI's objectives, with accompanying risk management strategies, and includes plans for collecting and reporting information on CFI performance. In 2011–12, the PERAF underwent a full-scale review and was updated to reflect the 2010 CFI Funding Agreement. It was submitted to Industry Canada in July 2011.

SOCIO-ECONOMIC IMPACT ASSESSMENT

Understanding and measuring the impacts of public R&D have become a central concern of policy-makers who evaluate the efficiency of public spending and assess its contribution to achieving social and economic objectives. The CFI, in partnership with the Canadian Institutes of Health Research (CIHR), launched a pilot study to quantify the socio-economic impacts of Canadian investment in medical imaging technology and related research. Four universities that received some of the earliest CFI funding in this research domain participated in the study: McGill University, The University of British Columbia, the University of Toronto and Western University. This pilot study will not only quantify economic benefits in dollar-denominated terms, but it will also describe and characterize the roles of the CFI and CIHR in promoting technological innovations leading to social, health and economic benefits.

PROJECT PROGRESS REPORTS

The CFI redeveloped its annual project progress report questionnaire and reporting rules to both minimize burden on researchers and improve the quality and usefulness of data. The new rules and updated questionnaire will be implemented in 2012. The changes involve researchers reporting once the infrastructure is operational and research has commenced, and researchers leading smaller projects will complete fewer reports.

SPECIAL STUDY ON LINKAGES

The CFI conducted a study, *Understanding the role of CFI-funded infrastructure in intersectoral linkages*, which showed that research in Canada is highly collaborative, and CFI-funded facilities play an important role as hubs of collaboration, including intersectoral collaboration.

The analysis also showed that: projects are more likely to involve collaborations as they mature; intersectoral collaboration appears to enhance research productivity; there is a positive association between project size and frequency of intersectoral linkages; and the frequency of intersectoral linkages varies significantly by field.

OUTCOME MEASUREMENT STUDIES (OMS)

OMS have been an important component of the CFI approach to performance measurement and accountability. The CFI completed three more visits in 2011–12 — Trent University (aquatic sciences), Université de Sherbrooke (advanced materials) and the University of Prince Edward Island (bio-sciences) — bringing the total number of OMS to 28 since 2007. OMS have demonstrated the CFI's impact on research at the institutional level and has allowed the CFI to accumulate valuable outcome information. They have also shown the extent to which institutions have used strategic research plans to develop areas of research strength and how, in some cases, they have effectively capitalized on CFI investments to turn research outcomes into innovations.

In an effort to improve its outcome assessment tools, the CFI launched an independent review of OMS methodology and process. While acknowledging their success, the review made a number of recommendations to improve the efficiency of OMS. The CFI had already begun developing the Platform OMS (POMS), a new assessment tool that uses the OMS approach as a blueprint, which addresses some of the recommendations. POMS aims to reduce burden using a streamlined process that will be used to study outcomes on a regional or national basis, since research platforms are intended to serve multiple users across vast geographic regions.

KEY FINDINGS FROM THE 2010–11 PROJECT PROGRESS REPORTS

Institutions are required to submit project progress reports for each of their CFI-funded projects every year. Analyzing the aggregate data from these project progress reports provides valuable information to the CFI and its stakeholders for planning and policy-making purposes. In 2011-12, the information was presented in a new, shorter format, focusing on a few key indicators through the lenses of research, talent and innovation.

Reporting and monitoring financial results

INVESTMENT PLAN

The CFI currently operates under two funding agreements with the Government of Canada. In compliance with these agreements, the CFI continued to invest funds allocated by the Government of Canada in accordance with its established investment strategy and investment policy. The principal objective of the investment strategy, and subsequent investment decisions, has always been the preservation of capital to meet future cash requirements. Consequently, the CFI adhered to a buy-and-hold strategy to ensure that investment maturities matched the forecasted cash requirements of the CFI. Both the CFI investment strategy and investment policy were reviewed in the fall of 2011 by the CFI Investment Committee. This committee is charged with overseeing the management and investment of CFI funds.

In recent years, the Government of Canada has changed the way it makes payments to the CFI. Instead of being provided in lump-sum payments, federal funding is now provided in annual instalments, based on the estimated cash requirements for the year. Consequently, the investment balance will decrease over the next few years. Investment income is also expected to decrease in the coming years as higher earning investments mature and the investment balance decreases, and because any new funding received will be invested on a shorter term basis with lower rates of return. The CFI anticipates an increase in the disbursements of funds in 2012–13 as several previously approved projects are reaching maturity and as projects approved under the most recent 2010 Funding Agreement start to be implemented.

FINANCIAL REPORTS

The CFI requires institutions to submit interim and final financial reports for each of their CFI-funded projects. Institutions submit the reports at specific intervals, based on the risk of each project. The CFI reviews the financial reports and identifies and addresses any issues. More than 1,300 financial reports were received and reviewed in 2011–12.

Communicating with 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 dialogue with governments, stakeholders and the public, the CFI highlights the key results of its programs and social and economic outcomes of the research enabled by its investments. To further this effort, in 2011–12 the CFI prepared to celebrate 15 years of building Canada's capacity to innovate. It launched a new brand identity and tagline — *Research builds communities* — and expanded its online presence with multiple media platforms, including a new website, blog and enhanced social media.

Improving program delivery

In 2011–12, the CFI carried out a variety of initiatives designed to improve program delivery, ensure accountability and adjust existing processes to better meet its objectives.

STAKEHOLDER COMMUNICATION AND OUTREACH

While delivering the CIIF, the MSI Fund and the LEF/NIF in 2011, the CFI continued to consult with stakeholders to ensure programs were delivered successfully. The CFI undertook a variety of outreach activities, such as organizing information sessions and leading presentations at various meetings and events to raise awareness and deepen understanding of new CFI program objectives and guidelines. Staff and members of the CFI Board of Directors also maintained direct connections with stakeholders across the country through meetings with researchers, university and college administrators and government officials.

CFI MERIT-REVIEW PROCESS — FOCUS ON SUSTAINABILITY

In an effort to continuously improve its processes, the CFI carefully examined its evaluation and review processes. The CFI implemented mechanisms that place greater emphasis on sustainability at all stages, from the information requested by applicants, to the review stage, and through to project implementation and ongoing operation.

DECREASING THE BURDEN ON INSTITUTIONS

The CFI needs to have appropriate requirements, mechanisms and oversight activities to ensure accountability and compliance with Government of Canada policies. To ensure that these activities are reasonable and do not present undue burden to the CFI or its funded institutions, the CFI consulted with its stakeholders to better understand areas of high burden at institutions. The CFI will review its requirements and the operational and financial oversight activities to identify possible areas of improvement.



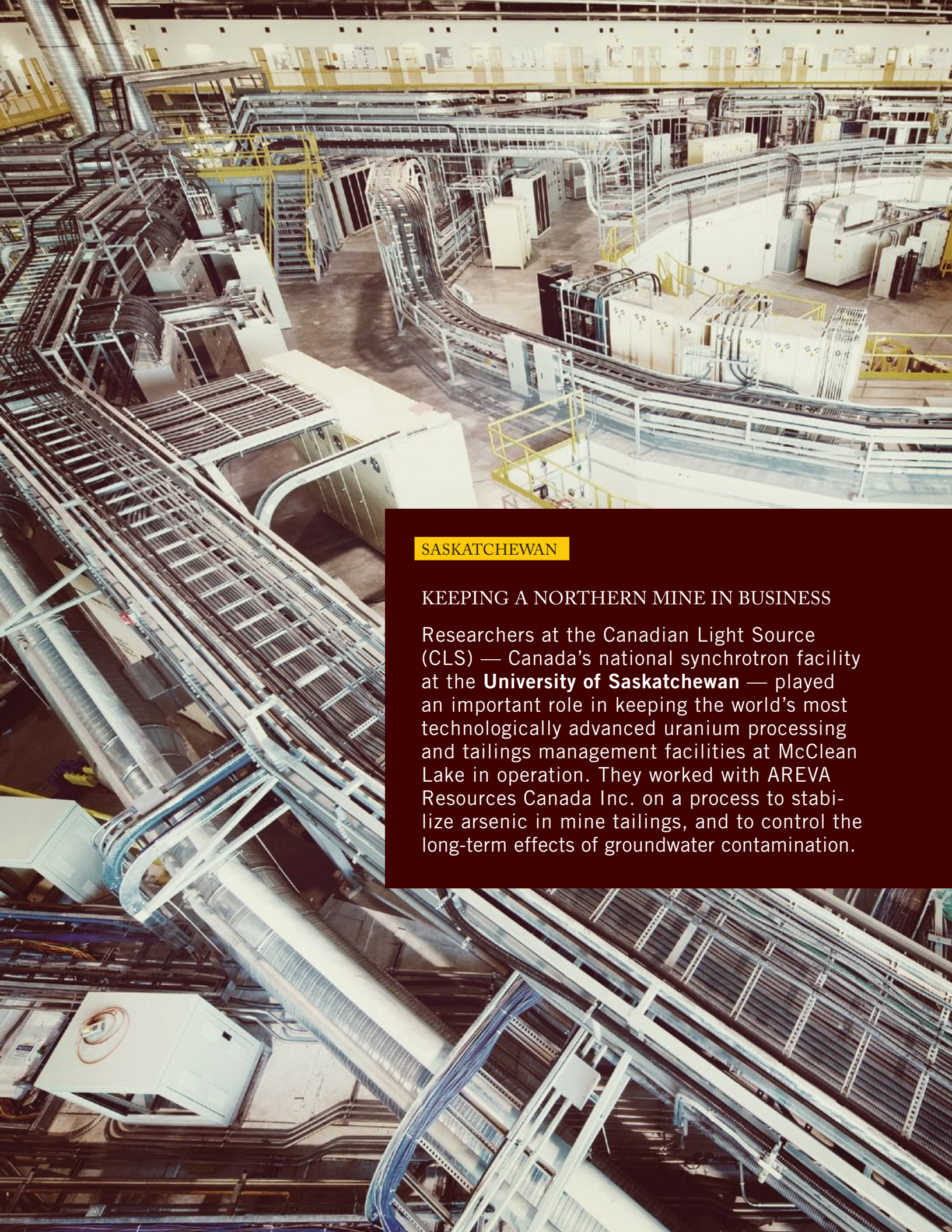
To celebrate its 15th anniversary, the CFI rebranded and launched a fresh website, posters, advertisements and a monthly newsletter, each highlighting how *Research builds communities* — the organization's new tagline.

COMMITTED AND PROJECTED AMOUNTS

TABLE 1. COMMITTED AND PROJECTED COMMITMENTS BY THE CFI BOARD (\$M)
1998–2014

Fund	1998–2011	2011–2012*	2012–2013	2013–2014	Unallocated	Total
1997 Funding Agreement (last amended 2009)						
Innovation	1,782					1,782
Infrastructure Operating	973	28	7	9		1,017
Leading Edge/ New Initiatives	840					840
Leaders Opportunity (and New Opportunities)	758	82	24	30		894
Research Hospital	499					499
International	202					202
Canada Research Chairs Infrastructure	199					199
National Platforms	84					84
Automotive Partnership Initiative	3	4	4	4		15
Other funds	78					78
Unused amounts	(41)					(41)
Unallocated Interest Earnings					21	21
Subtotal (\$M)	5,377	114	35	43	21	5,590
2010 Funding Agreement						
Major Science Initiatives		178	7			185
Leading Edge/ New Initiatives			155			155
Leaders Opportunity			75	65		140
Colleges		12	13			25
Infrastructure Operating		3	74	18		95
Subtotal (\$M)	–	193	324	83	–	600
Total (\$M)	5,377	307	359	126	21	6,190

* Cumulative grants awarded to March 31, 2012, are \$5,725 million; of this amount \$41 million will be unused by eligible recipients (as confirmed by final financial reports as at March 31, 2012) and recommitted in the future.



SASKATCHEWAN

KEEPING A NORTHERN MINE IN BUSINESS

Researchers at the Canadian Light Source (CLS) — Canada's national synchrotron facility at the **University of Saskatchewan** — played an important role in keeping the world's most technologically advanced uranium processing and tailings management facilities at McClean Lake in operation. They worked with AREVA Resources Canada Inc. on a process to stabilize arsenic in mine tailings, and to control the long-term effects of groundwater contamination.

GOVERNANCE

Board of Directors

The CFI Board of Directors meeting in June 2011 in Montréal was followed by the annual meeting of CFI Members. The Board also met in November 2011 in London, Ont., and in March 2012 in Victoria. The CFI Board is composed of a maximum of 13 individuals from a variety of backgrounds, each Director offering a unique perspective and understanding of the research community and bringing 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
William Driedzic (appointed June 2011)
Suzanne Fortier
Albert Friesen
Liz Harrison
Linda Hohol
Michel Kelly-Gagnon
Louise Proulx
Gordon F. Stovel
John Weissenberger
Term that expired in 2011–12
Ross McCurdy (June 2011)

COMMITTEES

Audit and Finance

Linda Hohol, Chair
Natalie Dakers
Albert Friesen
Kevin P. D. Smith
Gordon F. Stovel

Investment

Gordon F. Stovel, Chair
Linda Hohol
Michel Kelly-Gagnon
Kevin P. D. Smith

Governance and Nominating

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

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 Linda Humphreys and Michel Nadeau participate 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
Sandra Greer (appointed June 2011)
Linda Humphreys
Marie-Andrée Mallette
Rick Miner
Heather Munroe-Blum
Leigh Murphy
Michel Nadeau
Indira Samarasekera
Emöke Szathmáry
(appointed June 2011)
Term that expired in 2011–12
Gail Dinter-Gottlieb (June 2011)

Members Nominating Committee

Linda Humphreys (Chair)
Rick Miner
Leigh Murphy



QUEBEC

GREEN SOLUTIONS HELP CANADA'S TOP HORTICULTURAL COMPANY PROSPER

Premier Tech, Canada's leading supplier of horticultural products, works with **Université de Montréal** to improve its product range and expand its market. The collaboration is leading to the development of a diagnostic tool to help farmers and growers analyze their soil and the efficacy of certain fungal products, which help plants absorb nutrients and develop disease resistance. Ongoing research on new fungal strains promises to diversify the company's products line, helping Premier Tech remain competitive and keep more than 800 jobs in Rivière-du-Loup, Que., a city of 19,000.

Ranges of remuneration

BOARD DIRECTORS AND MEMBERS

Directors opting 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 2011–12, the remuneration of Board Directors ranged from \$0 to \$20,500.

For the fiscal year ending March 31, 2012, compensation for CFI staff was within the following annual salary ranges:

CFI MANAGEMENT (OFFICERS)

Gilles G. Patry, President and CEO	\$204,000 to \$286,000
Robert Davidson, Vice-President, Programs and Planning	\$135,200 to \$187,100
Manon Harvey, Vice-President, Finance and Corporate Services	\$135,200 to \$187,100
Pierre Normand, Vice-President, External Relations and Communications	\$135,200 to \$187,100

EMPLOYEES

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

Director, Programs	\$107,100 to \$142,900
Director, Communications	\$93,200 to \$124,400
Director, Corporate Services	\$93,200 to \$124,400
Director, Evaluation and Outcome Assessment	\$93,200 to \$124,400
Director, Finance	\$93,200 to \$124,400
Manager, Leaders Opportunity Fund	\$84,700 to \$112,800
Manager, Financial Monitoring	\$84,700 to \$112,800
Senior Programs Officers	\$84,700 to \$112,800
Senior Programs Planning Officer	\$84,700 to \$112,800
Manager, Administration	\$76,300 to \$101,200
Senior Financial Monitoring Officer	\$76,300 to \$101,200

THE YEAR AHEAD

During the next fiscal year, the CFI will work with the Government of Canada to develop a new funding agreement that will support investments in leading-edge research infrastructure through the \$500 million allocated to the CFI in Budget 2012. This funding will be awarded over five years, beginning in 2014–15.

The CFI will also begin implementing its strategic road map, evolving its programs and processes to meet the six strategic directions it has set out in order to fulfill its mandate. These directions include the CFI's current practices, along with adjustments that will allow the organization to meet today's challenges.

STRATEGIC DIRECTION 1 Invest in the highest levels of excellence

Research excellence underlies all CFI funding activities. It is the starting point in the design and implementation of our programs, the primary criteria applied to all funding decisions and the ultimate standard of research and technology development. By focusing on excellence in both basic and applied research, the CFI ensures that results are maximized, and that the best people are supported and public resources are effectively distributed.

/ GOAL

Ensure Canadian researchers perform at the highest level of excellence and that innovators benefit from their research.

STRATEGIC DIRECTION 2 Sustain and enhance Canada's research capacity

Sustaining the capacity of Canada's research enterprise is an immediate priority for the CFI and for the Government of Canada. Given that the CFI has played a central role in building this capacity over 15 years and that the Government of Canada recognizes that ongoing investments in state-of-the-art infrastructure is part of sustaining that capacity, it is only appropriate that the CFI helps tackle this challenge. Canadian researchers cannot remain at the cutting edge of research using outdated equipment and facilities.

/ GOAL

Ensure Canada's research enterprise has the capacity to perform at world-class levels.

STRATEGIC DIRECTION 3 Forge productive partnerships

The CFI supports and engages in partnerships between researchers and institutions that undertake research activities, and among research funding agencies to coordinate funding and improve outcomes. The next step for the CFI is to facilitate the participation of the private sector in these productive partnership arrangements, allowing them to increase their capacity for innovation. At the same time, we must ensure that those institutions engaging in partnership activities receive appropriate support and recognition for their efforts. These partnerships are effective in promoting world-class research, improving the management of multi-institutional research infrastructure, coordinating access to financial support and reducing the burden on applicants.

/ GOAL

Ensure that, where appropriate, CFI infrastructure investments achieve maximum impact through partnerships.

STRATEGIC DIRECTION 4 Build global influence

Canadian researchers have long sought out, and benefited from, international collaborations, and leaders of the R&D community have actively encouraged institutions and governments to support such activities. State-of-the-art research infrastructure is one of the key drivers in establishing global influence and facilitating Canadian participation in global research undertakings. Such facilities also attract international collaborators to Canada. Adopting a strategic focus on building Canadian influence in the global research enterprise will allow Canada to seize opportunities that are currently being missed, bring Canadian innovation to the world and, by drawing foreign researchers to Canada, ensure that CFI-funded facilities are fully exploited.

/ GOAL

Ensure Canadian researchers have access to the infrastructure necessary to make important contributions to the global research enterprise and maximize benefits for Canada.

STRATEGIC DIRECTION 5

Establish a trusted voice in the public discourse

Successful organizations are often known both for their practices and for their contributions to the public agenda. Over the years, the CFI has gained significant trust among governments and other stakeholders for its ability to efficiently manage and allocate public funds, while developing and implementing innovative programs that have truly transformed the research landscape. This recognition has served the organization well. Today's digital world, however, demands that communications be suited to the electronic medium. Having set our sights on becoming a communications powerhouse, the CFI now needs to convene and engage in national conversations in its area of expertise, and to embrace the digital environment, creating new and exciting online communications products.

/ GOAL

Ensure the CFI communicates the value and impact of the research enabled by its infrastructure investments.

STRATEGIC DIRECTION 6

Track impacts

The CFI has made great strides in developing methods for assessing and evaluating the impacts of its investments in order to understand the importance of infrastructure to the research enterprise, the role it plays in contributing to Canada's innovation system and the value to Canadian taxpayers. Evaluation also plays a crucial role in effective program design and implementation by providing evidence of success. The CFI has developed a suite of highly innovative evaluation and outcome assessment tools that allow the CFI to extract key outcomes of its funding. Drawing on new sources of evidence and seeking greater collaboration with a broader range of stakeholders, the CFI will continue to develop innovative tools that allow us to understand the impact of research infrastructure investments.

/ GOAL

Ensure the CFI accurately assesses the value and impact of its investments in research infrastructure.

NEW BRUNSWICK

BUILDING A MORE PROSPEROUS PORT OF CALL

It can be tricky for increasingly large container vessels and cruise ships to manoeuvre in and out of the Saint John Port, where the Saint John River and Bay of Fundy tides deposit loads of sediment. A research team from the **University of New Brunswick** and the **Institut national de la recherche scientifique** in Quebec is studying the sedimentation, currents and ecology of the harbour to better predict sedimentation volumes. The researchers are working with the port authority to develop more cost-efficient and environmentally sustainable ways of disposing of extra sediment to help pilots safely berth their vessels.



FINANCIAL STATEMENTS

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, 2012 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, 2012 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 19, 2012

Balance sheet

as at March 31, 2012

	2012	2011
ASSETS		
Cash	\$ 5,107,811	\$ 11,369,617
Interest and other receivables	7,384,507	10,686,418
Investments (Note 4)	1,505,296,632	1,701,557,883
Prepaid expenses	234,252	250,249
Capital assets (Note 5)	3,687,107	2,536,735
	\$ 1,521,710,309	\$ 1,726,400,902
LIABILITIES AND NET ASSETS		
Accounts payable and accrued liabilities	\$ 1,508,431	\$ 1,592,790
Deferred lease inducement (Note 6)	139,915	–
European Research Area — Canada project deposits	21,468	22,812
	1,669,814	1,615,602
DEFERRED CONTRIBUTIONS (Note 7)		
Expenses of future years	1,516,353,388	1,722,248,565
Capital assets	3,687,107	2,536,735
	1,520,040,495	1,724,785,300
COMMITMENTS (Note 9)		
NET ASSETS (Note 8)	–	–
	\$ 1,521,710,309	\$ 1,726,400,902

APPROVED BY THE BOARD

 Director

 Director

Statement of operations

year ended March 31, 2012

	2012	2011
Revenue (Note 7)		
Recognition of deferred contributions related to amounts granted to eligible recipients	\$ 427,219,788	\$ 460,104,290
Recognition of deferred contributions related to current year operations	13,505,426	11,989,388
Amortization of deferred contributions related to capital assets	607,141	530,337
	441,332,355	472,624,015
Expenses		
Grants to eligible recipients	427,219,788	460,104,290
General and administration	13,505,426	11,989,388
Amortization of capital assets	607,141	530,337
	441,332,355	472,624,015
EXCESS OF REVENUE OVER EXPENSES	\$ -	\$ -

Statement of cash flows

year ended March 31, 2012

	2012	2011
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Excess of revenue over expenses	\$ —	\$ —
Items not affecting cash:		
Amortization of capital assets	607,141	530,337
Amortization of deferred contributions related to capital assets	(607,141)	(530,337)
Change in unrealized gain on investments	(9,695,590)	16,700,842
Net increase (decrease) in amortization of discount/premium on investments	(816,263)	26,048,658
Net decrease in deferred contributions related to expenses of future years	(382,895,177)	(424,230,059)
	(393,407,030)	(381,480,559)
Changes in non-cash operating working capital items (Note 11)	3,372,120	2,081,125
	(390,034,910)	(379,399,434)
INVESTING		
Purchase of capital assets	(1,757,513)	(1,653,585)
Increase in deferred contributions related to capital assets	1,757,513	1,653,585
Purchase of investments	(864,534,158)	(1,001,715,946)
Matured investments	1,071,307,262	1,163,366,577
	206,773,104	161,650,631
FINANCING		
Grants received (Note 7)	177,000,000	203,000,000
NET CASH OUTFLOW	(6,261,806)	(14,748,803)
CASH, BEGINNING OF YEAR	11,369,617	26,118,420
CASH, END OF YEAR	\$ 5,107,811	\$ 11,369,617

Notes to the financial statements

year ended March 31, 2012

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

The financial statements have been prepared in accordance with the Canadian Institute of Chartered Accountants (CICA) Handbook — Part V *Pre-Changeover Accounting Standards* (Canadian GAAP) and include the following significant accounting 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 disbursements of funds are authorized by management.

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 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:

Leasehold improvements	term of the lease
Furniture and other equipment	20%
Computers and software	3–5 years
Award management system	8 years

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 collectibility 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.

Transition to this new accounting framework will impact financial instruments which will be reported at amortized cost on a prospective basis and will require presentation of a separate capital category in the Statement of Cash Flows, as well as additional financial statement note disclosure. There are no other significant impacts related to this transition.

3 / 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, 2012, the CFI has met its objective of having sufficient liquid resources to meet its current obligations.

4 / INVESTMENTS

Investments comprise the following financial instruments:

	2012		2011	
	Fair Value	Cost	Fair Value	Cost
Money market funds	\$ 89,138,632	\$ 89,137,906	\$ 83,760,121	\$ 83,758,320
Bonds	724,288,768	716,891,127	933,315,292	932,923,596
NHA mortgage-backed securities	691,869,232	683,147,354	683,612,297	677,532,258
Amortizing bonds	–	–	870,173	919,054
	\$ 1,505,296,632	\$1,489,176,387	\$ 1,701,557,883	\$ 1,695,133,228

INTEREST RATE AND MARKET RISKS

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 2.00% to 6.05% (2011 — 2.02% to 6.40%). The rates for mortgage-backed securities range from 2.00% to 5.85% (2011 — 2.15% to 6.15%).

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 2012 and May 2012. Bond maturities range between June 2012 and March 2017. The maturities of mortgage-backed security range between May 2012 and October 2016.

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 20% (2011 — 1% to 15%) of the total investment portfolio depending on the investment category. As such, management believes that credit risk is appropriately managed.

5 / CAPITAL ASSETS

Capital assets consist of the following:

	2012			2011
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Leasehold improvements	\$2,622,979	\$2,449,267	\$ 173,712	\$ 132,432
Furniture and other equipment	873,658	745,454	128,204	82,137
Computers and software	1,338,365	1,129,535	208,830	272,475
Award management system	3,483,870	307,509	3,176,361	2,049,691
	\$8,318,872	\$4,631,765	\$3,687,107	\$ 2,536,735

6 / DEFERRED LEASE INDUCEMENT

In August 2011, the CFI entered into a ten-year lease extension for its premises with option to terminate after five years and received an inducement. The lease provides for three months free rent totalling \$161,440. This amount has been recognized as an inducement. The amortization of the inducement is over 60 months commencing in August 2011 at \$2,691 per month. As of March 31, 2012 the unamortized balance is \$139,915.

7 / DEFERRED CONTRIBUTIONS

The CFI currently operates under two active Funding Agreements with the Government of Canada. As at March 31, 2012, the Government of Canada had committed \$4.99 billion in grants to the CFI under these agreements, of which \$4.26 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 \$177 million (2011 — \$203 million) related to these agreements.

In budget 2012, the Government of Canada has proposed an additional \$500 million in funds to the CFI over five years, starting in 2014–15, to support the Foundation's core activities. The Funding Agreement has yet to be put in place for this amount as of March 31, 2012.

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.

	2012	2011
Balance, beginning of year	\$ 1,722,248,565	\$ 1,943,478,624
Add grants received	177,000,000	203,000,000
Add restricted investment revenue earned	59,587,550	49,517,204
Less amount recognized as revenue	(440,725,214)	(472,093,678)
Less amount applied toward capital assets acquired	(1,757,513)	(1,653,585)
Balance, end of year	\$ 1,516,353,388	\$ 1,722,248,565

Included in restricted investment revenue earned for 2012 is an increase of \$ 9,695,590 (2011 — a reduction of \$16,700,842) relating to unrealized gains recognized during the year. The balance of unrealized gain at year end is \$16,120,245 (2011 — \$6,424,655).

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.

	2012	2011
Balance, beginning of year	\$ 2,536,735	\$ 1,413,487
Restricted grants applied toward the purchase of capital assets	1,757,513	1,653,585
Less amount amortized to revenue	(607,141)	(530,337)
Balance, end of year	\$ 3,687,107	\$ 2,536,735

8 / 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.

9 / COMMITMENTS

During the year, the CFI awarded grants for a maximum amount of \$311.4 million (2011 — \$98.6 million). Total disbursements to eligible recipients during the fiscal year were \$427.2 million (2011 — \$460.1 million). To date, the CFI has awarded grants for a maximum amount of \$5,725.4 million, of which \$4,213.3 million had been disbursed as at March 31, 2012. The maximum grants awarded to date include \$41.1 million (2011 — \$33.0 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, 2012. The balance of the awarded grants will be recorded as expenses in subsequent years as disbursements of funds are authorized by management.

The CFI renewed the lease agreement for its premises at 230 Queen Street (Ottawa, Ontario) for a ten-year period ending July 31, 2021 with option to terminate after five years. The minimum annual lease payment related to these premises is approximately \$1.2 million.

10 / 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, 2012 amounted to \$640,506 (2011 — \$575,234).

11 / CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	2012	2011
Interest and other receivables	\$ 3,301,911	\$ 1,200,190
Prepaid expenses	15,997	(19,020)
Accounts payable and accrued liabilities	(84,359)	834,497
Deferred lease inducement	139,915	—
European Research Area — Canada project deposits	(1,344)	65,458
	\$ 3,372,120	\$ 2,081,125