CANADA FOUNDATION FOR INNOVATION

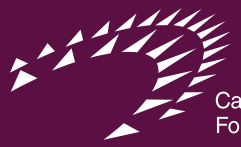






ANNUAL REPORT 2000-2001

Canada Foundation for Innovation
Fondation canadienne pour l'innovation



Canada Foundation for Innovation
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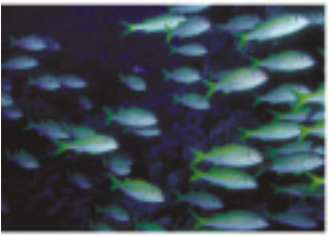
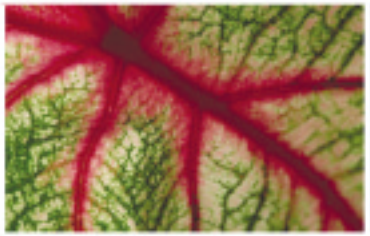
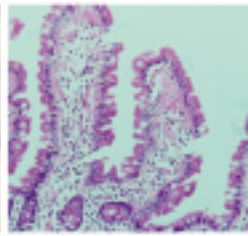
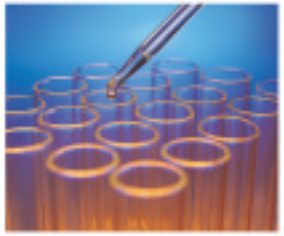


A MESSAGE FROM THE CHAIR



In the past year, the CFI's role in helping Canada compete on the global stage has become even more critical. The Foundation's pivotal support to researchers at universities, colleges, hospitals, and not-for-profit research organizations heightened in importance with the federal government's Throne Speech commitment. Canada now has an impressive new goal: to become one of the world's top-five most research-intensive nations by 2010.

Reaching that goal will require a concerted effort on the part of governments, the private and voluntary sectors, research institutions, and the researchers themselves, in every corner of the country. It will also, as the Government acknowledged, require a doubling of resources over the next decade. In two infusions of capital to the CFI, the federal government has already begun to make good on that commitment. Last October, following the Economic Statement and Update, the CFI received $500 million. On March 6 of this year, the federal government awarded another $750 million to CFI programs and extended its mandate to 2010. This additional $1.25 billion brings the federal government's total investment in the CFI to $3.15 billion. This significant investment, combined with interest, will result in more than $9 billion being spent by all of the funding partners, to support and renew the infrastructure at research institutions across the country.

In keeping with the Government of Canada's strategy to ensure our country's leadership role in innovation, the CFI is funding infrastructure projects that are strengthening the research environment. This is enabling institutions to train young researchers, as well as to help attract and retain the best scientists from around the world. These projects, in partnership with the private and public sectors, are also helping to preserve and strengthen Canada's intellectual capital.

Since it was founded in 1997, the CFI has invested $873.3 million in 1,176 projects, which span all disciplines and regions of the country. These projects are inspiring thousands of researchers at 95 universities, colleges, hospitals, and not-for-profit institutions. In this past year alone, the Foundation approved 493 projects, including support for 40 recipients of Canada Research Chairs, the organization the federal government set up to establish world-class faculty positions at universities across the country.

The $408 million the CFI contributed this year alone was but a portion of the total investment involved, because the Foundation funds, on average, 40 percent of the project costs. The remaining funds come from provincial agencies, the private sector, not-for-profit organizations, and the institutions themselves.

The collaboration is strengthening ties throughout the research community across Canada. These partnerships are also enabling researchers to develop the contacts needed to commercialize the results of their work. Turning research into practical applications—be it vaccines, better fire detection systems, or cleaner waterways—translates to improvements in the quality of life for all Canadians. The support the CFI has encountered from the research community is exciting. In the following pages, you will find examples of the projects the CFI has helped to finance, and the testimony of private- and public- sector partners about the success of the research enabled by the infrastructure.

Working as a partner in the Canada Research Chairs Program, and alongside the Canadian Institutes of Health Research, the Natural Sciences and Engineering Research Council, the Social Sciences and Humanities Research Council, and Genome Canada, the CFI is building not only national but international networks to expand our frontiers of knowledge. Innovation is borderless.

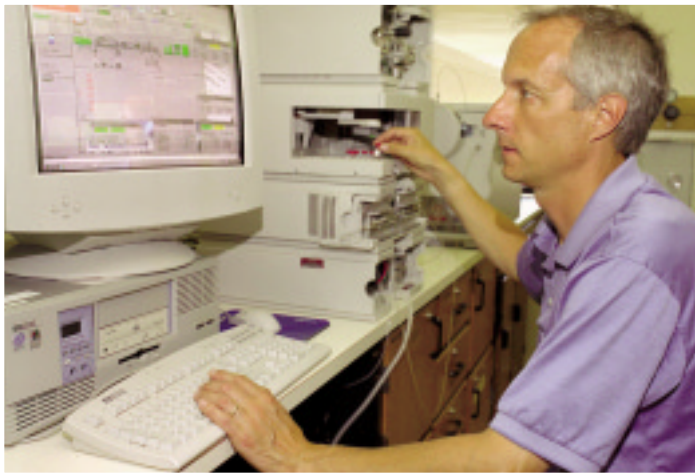
Let me conclude on behalf of the Board by thanking the many volunteers who make up the committees reviewing the funding applications. Those volunteers are motivated by their belief that research and development are essential to Canada's ability to succeed in the increasingly competitive global economy. Their efforts are deeply appreciated.

I'd also like to thank the dedicated staff at the CFI, as well as my colleagues from the Board, and our Members. These people are unfailingly professional and helpful, and share the same contagious enthusiasm as the researchers themselves.

It is my pleasure to look forward to a new year of working with those volunteers and staff, and to becoming acquainted with the innovative ways our institutions are rising to the challenge of becoming leaders in the knowledge economy.

John R. Evans

Memorial University of Newfoundland



A team of researchers from Memorial University of Newfoundland has received funding from the CFI to develop a research and training Centre for Chemical analysis. Led by **Dr. Robert Helleur** *of the Department of Chemistry, the team is developing a state-of-the-art instrumental analysis facility that supports applied chemical research, chemical analysis, and student training. Dr. Helleur is an Innovation Fund award recipient.*

A MESSAGE FROM THE PRESIDENT & CEO

Since its beginning in 1997, the Canada Foundation for Innovation has been dedicated to helping researchers at universities, colleges, hospitals, and other institutions across the country access the facilities, installations, and equipment they need to conduct leading-edge research.

Just four years later, we are seeing the results of our investments. We are retaining and attracting innovative specialists in all areas of research. They are coming together across disciplines and from diverse institutions to apply fresh eyes to complex issues. Researchers are moving their discoveries from the laboratory to the marketplace. They are spinning off companies to supply technology in high demand for biotech and high-tech firms. And the investments are creating jobs. More importantly, however, the discoveries are taking us closer to groundbreaking new treatments in the healthcare fields and advances in industrial performance, as well as expanding our knowledge in the social sciences and the humanities.

In this annual report, you will read the details of these successful investments. You will also hear the stories of researchers and their partners in the public and private sectors—all describing some of the remarkable achievements these collaborations have brought. Here are just a few of the impressive examples:

- At Memorial University of Newfoundland, acoustic oceanography researchers are concerned with diversifying Newfoundland's economy. They expect their new equipment—an Acoustic Doppler Current Profiler (ADCP)—funded by the CFI, will help them develop their institution as a world-class training centre for people working in emerging marine industries such as ocean acoustic.

- At the Université de Montréal, researchers from different disciplines, including pathology, oncology, and genomics, are assembling a province-wide bank of blood and tumour-tissue samples. They hope the samples will help them develop new therapies and treatment strategies for women with breast and ovarian cancer.

- In the Region of Waterloo, a partnership among municipalities, two universities, and the CFI has catapulted a Live Fire Research Facility off the drawing board and onto a construction site. For more than 10 years, the community had discussed the need for a facility to research the effects of real fires, as well as to train firefighters, test smoke-detection systems and suppression agents, and assess building materials.

- Brought together by a CFI-funded initiative, Professor Derrick Rancourt and two other colleagues from Alberta universities have formed an exciting biotechnology venture called NeuroStasis Inc. Their work in gene therapy—

to enable the brain to repair itself after injury or neurological illness—is attracting post-doctoral candidates and technicians from around the globe.

To date, the CFI has allocated $873 million—more than its original $800-million budget. Thanks to increased funding and an extended mandate, we will be able to make progress in meeting the continued need for infrastructure to equip researchers. In the past, those researchers often had to adjust the scope of their work to limits imposed by inadequate facilities and outdated equipment. The state-of-the-art equipment and upgraded facilities that the CFI and its partners make possible means the researchers no longer face those limits. They can now dream big. And they do.

The CFI is fostering a multi-institution, multi-disciplinary approach to exploring the issues and challenges facing Canadians. In the past year, we have sponsored numerous "think tanks" that have brought together experts from across the country on subjects ranging from genomics to telecommunications to nanotechnology—the next level in micro-instrumentation.

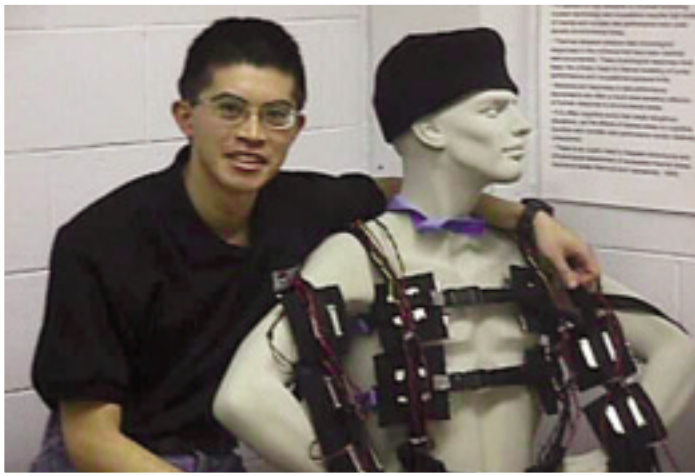
In this coming year, we will launch two key international initiatives. The International Joint Ventures Fund will finance up to four projects worth a total of $100 million to establish collaborations with outstanding facilities in other countries. The International Access Fund, another $100-million fund, will provide Canadian researchers with access to facilities in other parts of the world.

In all of its programs, the CFI strives to increase public participation, and apply the highest standards of transparency and accountability in managing public funds. We will continue to report on the results of our investments by sharing the stories of the researchers and their projects, as well as the impact they have on the lives of Canadians.

I would like to add my thanks to those of Dr. Evans for the superb dedication of the CFI volunteers and staff. I look forward to another year of working with all those who share the belief in the importance of innovation for our country.

David W. Strangway

Dalhousie University



Dalhousie University's **Dr. Stephen Cheung** *is a researcher at the university's School of Health and Human Performance. He is establishing an environmental physiology research facility to examine the link between how temperature changes affect the body, and how they affect a person's ability to perform tasks. Dr. Cheung is a CFI New Opportunities researcher.*

Dr. Michael Smith

1932-2000

On October 4, 2000, Dr. Michael Smith, Nobel Prize winner and one of the founding members of the CFI Board of Directors, passed away. Dr. Smith was the Peter Wall Distinguished Professor of Biotechnology at the University of British Columbia.

One of Canada's most sought-after lecturers, Dr. Smith was the holder of many scientific awards, including the 1993 Nobel Prize in Chemistry, and the Principal Award of the Ernest C. Manning Awards Foundation.

His colleagues at the CFI remember him not only for his thoughtful contributions, dedication, and commitment to research, but also for his humanity and generosity.

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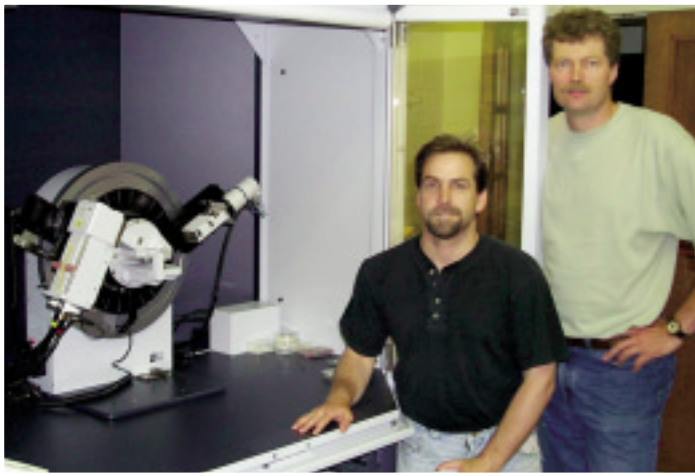
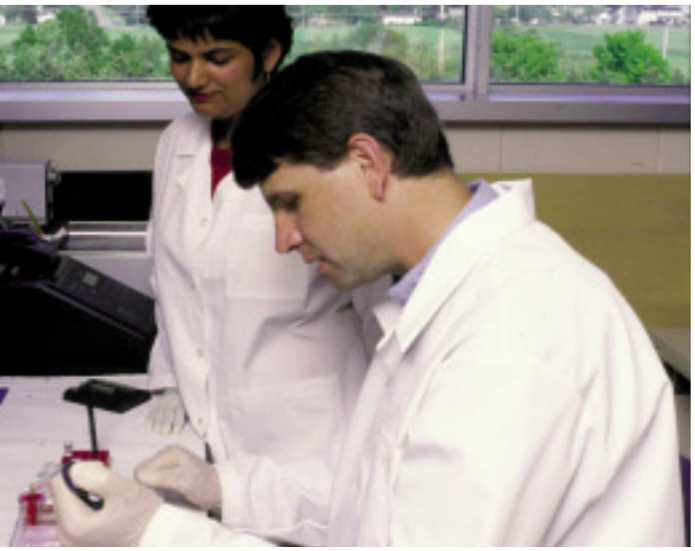
* *Term ended in December 2000*
** *Passed away on October 4, 2000*

University of New Brunswick



***Dr. David Lentz** (left), Chair in Economic Geology at the University of New Brunswick, is developing techniques, methodologies, and scientific expertise to retain and improve Canada's leading position in the field of mineral deposits exploration and development. Dr. Lentz appears with his colleague **Dr. Tom Al**, also from the Department of Geology. They are both CFI New Opportunities researchers.*

University of Prince Edward Island



Dr. Alastair Cribb *has received support from the CFI to establish the Drug and Chemical Safety Research Laboratory at the University of Prince Edward Island's Atlantic Veterinary College. A new plate fluorometer and digital-imaging station will help train graduate students such as* **Shannon Fitzpatrick** *in the latest techniques to improve the safety of drugs and chemicals. Dr. Cribb is a Canada Research Chair holder.*

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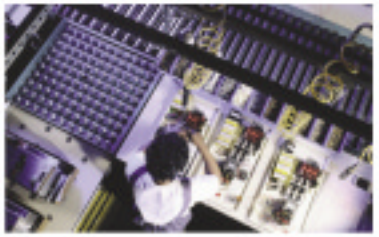
*** *Term ended in February 2001*

THE YEAR IN REVIEW



2000 - 2001

NEW PROGRAMS

This year, the CFI received an additional $1.25 billion from the Government of Canada. These funds came with a specific mandate: to ensure that Canada is a leader on the global stage and an international player in research and development. With this new investment and the existing capital, the CFI has established two new research funds, each worth $100 million.

The International Joint Ventures Fund will support up to four high-profile research infrastructure projects in Canada in collaboration with leading facilities in other countries. These projects are expected to bring significant benefits to Canadians, through the knowledge they advance and the training and expertise they will provide our own researchers.

The International Access Fund will enable Canadian researchers and their institutions to gain access to crucial facilities in other countries. Canada will be involved in collaborative research on issues of major importance to our nation's well-being.

The Canadian portion of projects that qualify under both these funds will be financed at up to 100 percent. This funding structure differs from other CFI programs, where the Foundation provides up to 40 percent of infrastructure cost and the institution must attract the remaining 60 percent from other public- or private-sector sources. These two new funds will help Canada lead in the global knowledge-based economy. The research projects will tackle challenging subjects and issues in the health, environmental, and social fields. Through these programs, Canada will be able to collaborate with the best in the world, using facilities that would otherwise be beyond our borders.

In the spring of 2001, the CFI called on institutions to submit Letters of Intent for exciting, transformative projects under these two new funds. We look forward to receiving Letters of Intent designed to increase Canada's ability to be a full partner with the best in international research circles—as a leading participant in research and development.

The $400-million Infrastructure Operating Fund will contribute to the operating and maintenance costs associated with new infrastructure projects that the CFI supports. As with the two international funds, institutions do not have to find matching partners for these awards. To qualify, institutions will have to demonstrate that the equipment or facilities supported through this fund can be operated and sustained for at least five years. The investment for this fund by the Government of Canada was announced in the October 2000 Economic Statement and Budget Update.

The remainder of the new funding the CFI received this year—$750 million—will enable the Foundation to extend its activities to 2010.

STRENGTHENING CAPACITY

There are two factors foremost in the minds of students considering research careers in Canada and around the globe. The first: will they be able to work with the top leaders in their fields? The second: will they have the laboratories and the equipment needed to allow them to compete—as they strive to break the barriers of existing knowledge?

The CFI's programs help institutions strengthen their capacity to compete globally by attracting and retaining talented faculty, and by training the next generation of researchers.

Since our last annual report, the CFI has allocated more than $408 million to 493 projects. This includes the infrastructure support provided to the recipients of 40 Canada Research Chairs.

But these figures don't tell the full story about the impact of the CFI investment. Inside laboratories, the people and the projects they support are far more exciting than the sheer numbers.

Support for projects, institutions, and researchers is drawn from five funds —in addition to the two new international funds and one new operating fund established this past year. Here is how the CFI allocated funding under each program:

The Innovation Fund

One of the CFI's strengths has been its requirement that Canadian institutions prioritize the areas of research on which they will concentrate. This promotes the creation of a critical mass of expertise at Canadian universities and other research institutions.

The Innovation Fund helps to create this critical mass by promoting multi-disciplinary and inter-institutional collaborations. Together, groups of researchers can tackle complex and challenging issues. Eligible institutions, either alone or in groups, can apply under this fund to strengthen their research infrastructure in priority areas they have identified in their strategic research development plans. Through this fund, the CFI this year awarded $354.3 million to 190 projects at 41 institutions across the country. This brings the total investment to date under this fund to $720.4 million.

Innovation Fund – Distribution by Project *(Cumulative to March 31, 2001)*

CFI CONTRIBUTION ($)	NO. OF PROJECTS	CONTRIBUTIONS ($M)	% PROJECT	% CONTRIBUTIONS
Less than 200k	90	10.7	23.9	1.5
200k to 1M	123	66.6	32.6	9.2
1M to 2M	58	83.5	15.4	11.6
2M to 5M	75	234.0	19.9	32.5
5M to 10M	23	146.3	6.1	20.3
Over 10M	8	179.3	2.1	24.9
Total	377	720.4	100	100

The New Opportunities Fund

As a nation, one of Canada's emerging challenges is to compete with other institutions around the world to retain existing researchers at its universities, and to attract new high-calibre talent. While the baby-boom generation heads towards retirement, and as massive hiring takes place around the world to replace retiring faculty, post-secondary institutions across the country are already facing intense competition for researchers.

The New Opportunities Fund helps launch the careers of new and talented faculty members. These awards are part of the strategy that institutions employ to recruit faculty in areas and disciplines that are essential to their research objectives.

This past year, the fund provided awards totalling $37.3 million to 66

Booster Ring Structure —Under Construction

On February 26, 2001, the building housing the new Canadian Light Source at the University of Saskatchewan was inaugurated in the presence of a number of dignitaries including: Saskatchewan Premier, Lorne Calvert; Secretaries of State, Ron Duhamel and Gilbert Normand; City of Saskatoon Deputy Mayor, Patricia Roe; Alberta Science and Research Authority, Dr. Howard Tennant; and Ontario Innovation Trust Executive Director, David Bogart.

The CFI is investing $56.4 million in this partnership involving 19 universities, three provinces, federal government agencies, the City of Saskatoon, public utilities companies, as well as the private sector.

The CFI also invested $41.3 million in three other national projects:

- The Canadian National Site Licensing Project involves 64 universities across the country and provides access to digital scientific journals and publications.
- The Research Data Centres are comprised of six regional facilities that provide access to Statistics Canada databases for research.
- The National System-On-Chip Research Network provides the tools and access to more than 250 researchers at 33 universities.

institutions—supporting 234 projects and helping to launch the careers of 265 new faculty members. This brings the total CFI contribution to date for this funding program to $98.7 million.

The University Research Development Fund

This fund is dedicated to smaller universities, to help them build their research capacity in strategic areas. CFI selection committees have been impressed with the quality of applications from smaller institutions: the success rate of colleges and universities has been 55 percent, compared with 50 percent for larger institutions. Seven institutions received awards for 11 projects this year, worth a total of $2.7 million, for a total to date of $32.9 million.

"Improving our productivity also means investing in knowledge—in research and development. Through organizations like the Canada Foundation for Innovation, we have leveraged support for cutting-edge research and development."

The Right Honourable Jean Chrétien, Prime Minister of Canada

The College Research Development Fund

The CFI recognizes and supports the role of colleges in contributing to Canada's social and economic well being. This fund is dedicated to strengthening the research resources at colleges, which have become a valuable source of innovative ideas and practical applications. The CFI invested $8.5 million in 21 projects at 15 colleges across Canada this year, bringing the total contribution to date under this fund to $15.9 million.

Canada Research Chairs Program

The CFI supports the Canada Research Chairs Program, which provides infrastructure and equipment for the recipients of world-class research positions at Canadian universities. During this first year of a five-year program, the CFI provided $5.7 million in awards to help leverage support for facilities and equipment used by the recipients of 40 new research chairs.

SELECTING THE BEST

Choosing the recipients of the CFI awards is a major task. In dollar terms, demand outweighs CFI funding by a ratio of about three to one, making the selection process rigorous and extremely competitive.

To assess the applications for funding, the CFI relies on a large number of volunteers—experts in their respective fields—who participate in Multidisciplinary Assessment Committees (MACs) and review the proposals

The CFI salutes the contributions of expert volunteers

On November 20, 1997, in recognition of the work of volunteers around the world, the United Nations declared 2001 the International Year of Volunteers. In Canada, this special year recognizes the contributions of over 7.5 million volunteers in more than 180,000 organizations—addressing humanitarian, social, cultural, and economic needs.

These contributions also extend to research. Since its creation in 1997, the CFI has benefited from the efforts of some 1,000 volunteers who sit on MACs and expert committees, or who act as external reviewers.

These volunteers offer a wide range of expertise as researchers, research managers, and users of research. Each MAC is comprised of 12 members—representing a balanced distribution in terms of language, gender, region, economic sector, discipline, and type of institution. On average, 60 percent of MAC members are from academia, with about 25 percent coming from industry, and 15 percent from government and other organizations. About one-third of MAC members come from outside Canada.

Since the first CFI competition for funding in 1998, volunteers have contributed over 5,000 days of work to review close to 2,000 infrastructure proposals that have been submitted by research institutions across the country.

The work of these volunteers is central to the CFI's decision-making. Ultimately, it contributes to Canada's capacity to innovate and be a leader in the global knowledge-based economy.

submitted by the institutions against the three main CFI criteria:

- quality of research and need for infrastructure;
- contribution to strengthening the capacity for innovation; and
- potential benefits of the research to Canada.

Many of these volunteers, who include research administrators, researchers, and research users, come from outside Canada. Their presence ensures that the selected projects are internationally competitive. Volunteers also come from every region within Canada to ensure a balanced representation from the provinces. The same principle applies for the representation of men and women, as well as linguistic and academic diversity.

The CFI Investment by Province *(Cumulative to March 31, 2001)*

PROVINCE	NO. OF PROJECTS	TOTAL $ AWARDED (M)
British Columbia	134	110.1
Alberta	112	58.8
Saskatchewan	28	20.4
Manitoba	57	16.2
Ontario	434	311.7
Quebec	315	230.7
New Brunswick	26	5.2
Nova Scotia	47	15.8
Prince Edward Island	2	0.7
Newfoundland	17	6.0
National Projects	4	97.7
Total	1,176	873.3

Members of the assessment committees may not lobby on behalf of any particular discipline, institution, or organization. They must also adhere to the CFI's Statement on Ethics and sign a confidentiality and non-disclosure agreement.

The Board of Directors makes the final decision to approve projects.

TRACKING CANADA'S RESEARCH POTENTIAL

The CFI, in consultation with the three federal granting agencies—the Canadian Institutes for Health Research, the Natural Sciences and Engineering Research Council, and the Social Sciences and Humanities Research Council—and Genome Canada has organized nine thematic workshops (see box below for titles and themes). The workshops focus on opportunities and emerging research areas where Canadian researchers could be competitive and lead at the international level.

CFI WORKSHOPS ON EMERGING AREAS OF RESEARCH

- High Performance Computing (HPC)
- E:business
- Genomics/Post-genomics
- Imaging
- Population Health
- Information and Communications Technology
- Nanotechnology
- Clinical Research
- Environmental Studies

The workshops also provided an opportunity to identify the infrastructure that will be needed by Canadian researchers and institutions to tackle these exciting areas and themes. These highly focused groups of leading Canadian experts looked at such questions as:

- What are the future exciting research opportunities in the field?
- Where is Canada now in relation to where the research is moving? What are the opportunities for collaboration nationally and internationally?
- Does Canada have a competitive edge in the area, or would there be significant socio-economic benefits?
- What type of infrastructure will be needed for Canadian researchers to make significant contributions in the identified areas?

The reports from these workshops are available on the CFI Web site at: **http://www.innovation.ca**

FINANCIAL ACCOUNTABILITY

The CFI is committed to operating in a fair and transparent manner in all its decision-making and operating processes. Since it is not subject to an annual parliamentary appropriation process, the Foundation takes the issue of its public accountability seriously. It is constantly seeking innovative ways to be accountable to Canadians who are the CFI's ultimate shareholders.

"By investing in organizations such as the CFI, the Government of Canada is fully engaged in making Canada one of the most innovative societies in the world."

The Honourable Brian Tobin, Minister of Industry

Research institutions that receive funding from the CFI must submit annual progress reports that detail the impact of each project, as well as the impact on each institution. The reports must document the impact of the CFI awards, and the benefits that research supported by the CFI is delivering to Canadians.

These reports are posted on the CFI Web site and are accessible to everyone. They form the basis of an annual review that examines the impact that CFI funding is having in positioning Canada as a world leader in research and development.

The CFI also obtains third-party reviews of the impact that its investments are having on institutions and their researchers. A recent review concluded that CFI funding is succeeding in meeting its major goals including:

- fostering multidisciplinary research;
- establishing new collaborations among colleges, universities, and hospitals;
- increasing productivity; and
- broadening research into areas of study that were previously inaccessible.

To make sure that institutions use CFI funds in accordance with the Foundation's guidelines, the institutions must complete financial reports and submit them to the CFI, as well as undergo financial audits. If a project is to receive $4 million or more, it is automatically audited. Auditors sample other projects as well. They ensure that the project's total budget, including the CFI investment and all matching funds, is used as it was originally intended.

The CFI Investment *(Cumulative to March 31, 2001)*

FUND	NO. OF PROPOSALS RECEIVED	NO. OF PROJECTS AWARDED	SUCCESS RATE (%)	FUNDS REQUESTED ($M)	FUNDS AWARDED ($M)	FUNDING RATE (%)
Innovation Fund	782	377	48.2	1,808.7	720.4	39.8
New Opportunities Fund	744	610	82.1	116.4	98.7	84.8
University Research Development Fund	167	109	65.3	47.6	32.9	69.1
College Research Development Fund	76	40	52.6	33.9	15.9	46.9
Canada Research Chairs	43	40	93.0	6.0	5.4	90.0
Total	1,812	1,176	64.9	2,012.6	873.3	43.4

Université de Sherbrooke

With support from the CFI, **Dr. François Michaud** *has created a research lab for mobile robotics and intelligent systems. The lab's primary goal is to develop ways to use robotics to enhance our quality of life. Dr. Michaud is a CFI New Opportunities researcher as well as a Canada Research Chair holder.*

Remuneration of Board of Directors

Members of the Board of Directors who opt to receive remuneration from the CFI are entitled to an annual retainer of $5,000. They are also entitled to receive a per-meeting fee of $500 for attending Board or Committee meetings, and a $250 fee for attending a Committee meeting associated with a Board meeting.

This policy respects the guidelines established by the Government of Canada entitled, "Remuneration Guidelines for Part-Time Governor in Council Appointees in Crown Corporations."

Compensation of Senior Management

Senior management compensation for the fiscal year ending March 31, 2001, was within the following annual salary ranges:

Name and position	Annual salary range
David W. Strangway *President & CEO*	$155,000 to $188,000
Denis Gagnon *Senior Adviser to the President*	$115,600 to $136,500
Carmen Charette *Senior Vice-President, Programs and Operations*	$115,600 to $136,500
Manon Harvey *Vice-President, Finance*	$100,600 to $118,400
Michel Lamoureux *Vice-President, External Relations*	$100,600 to $118,400

These salary ranges were approved following a benchmarking exercise by external consultants—to ensure comparability with equivalent positions in similar organizations and in the federal public service.

CELEBRATING SUCCESS




The CFI is not just investing in equipment, laboratories, and buildings. It is investing in a resource that is much more valuable and crucial to the CFI's goals: people. And not just the researchers who conduct the work the CFI is helping to stimulate. The CFI is investing in a much broader group—those who will benefit from the outcome of the researchers' work. By investing in people, the CFI is investing in Canada's future.

Here are just a few of the projects that have successfully competed for CFI funding. They span all disciplines and involve a wide range of talented and dedicated people from all regions of the country. They fill knowledge gaps in areas as diverse as science, health, the arts, engineering, the social sciences and humanities, and the environment.

Acoustic oceanography researchers at Memorial University of Newfoundland are adding an Acoustic Doppler Current Profiler (ADCP) to their tools—thanks to funding from the CFI. The new ADCP is providing the University's oceanography researchers with a better understanding of the gas exchange between the atmosphere and the ocean, which is especially necessary to predict changes in greenhouse gases—particularly carbon dioxide. Gases enter the ocean through "bubble injection," which is caused by breaking waves that are responsible for much of the ocean's noise. Measuring this noise with the ADCP gives scientists information about atmospheric changes. Although the tool has the potential to be used in monitoring fish movements, the University's researchers are more concerned with diversifying Newfoundland's economy. They expect the new equipment will help them develop Memorial University as a training centre for people working in emerging marine industries such as ocean acoustic research.

Prince Edward Island's economy depends on linkages among agriculture, fisheries, and tourism. Researchers in the University of Prince Edward Island's faculties of Veterinary Medicine and Science have established the Centre for Marine and Aquatic Resources (CMAR) to ensure the island's aquaculture industry increases its global competitiveness. With the help of high-tech microscopes, DNA sequencers, digital-imaging systems, and state-of-the-art software—all financed with a contribution from the CFI—scientists at the CMAR are investigating ways to conserve resources and combat fish pathogens. They're building a land-based model farm to better learn how to protect against pathogens and environmental factors that affect wild fisheries and commercial aquaculture.

> "Finding a group of researchers with well-defined skills and an international reputation is what's interesting to commercial companies"
>
> Dr. Oystein Evensen, Alpharma AS (Norway)

The CMAR researchers are working with two pharmaceutical companies—AVC Inc. and Alpharma AS—to develop an improved vaccine to combat the infectious salmon anemia virus, and to fight parasites affecting Atlantic salmon and other fish. In addition to promoting international collaboration with Norway and the United Kingdom, the centre will train biologists and veterinarians in the industry.

University of Western Ontario

Dr. Peter Poole *(left) and* **Dr. Allan MacIsaac** *are members of a research team that has received CFI support. Their goal is to establish in Canada a world-leading, multi-university, interdisciplinary institute for computational research in science, engineering, and business. Dr. Poole and Dr. MacIsaac are supported through the Innovation Fund.*

Every summer, the residents of Wolfville, Nova Scotia, wait for the arrival of the shorebirds. Hundreds of thousands of the tiny sandpipers and snipes, godwits, and curlews flock to the coastal wetlands of the Bay of Fundy during their annual migration from the Arctic to South America. Each day, as the world's highest tides recede, the tiny birds gorge themselves on mudshrimp oozing in the Bay's vast red mudflats. The birds eat as many as 20,000 shrimps daily, storing energy for their non-stop, 72-hour journey South. When they rise from the shore in a swooping, swirling cloud, the sound of their wings vibrating in synchronized motion is clearly audible.

"Giving the knowledge economy of the 21st Century a preferred home in Canada will lead to higher incomes, better jobs, and increased opportunities for all Canadians."

The Honourable Paul Martin, Minister of Finance

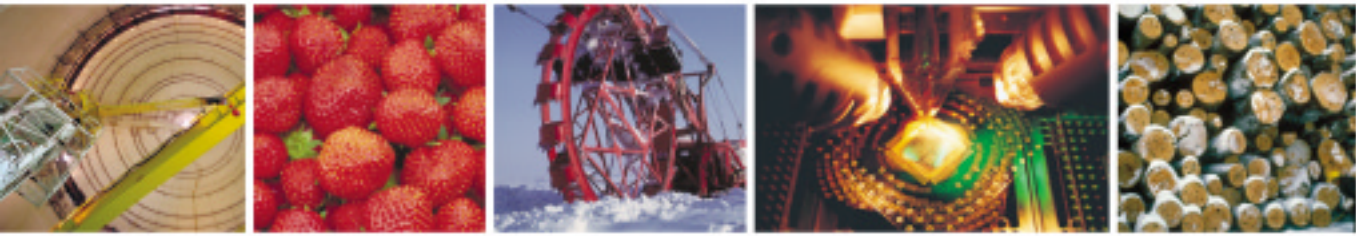
But in the past few years, some species of these migratory shorebirds have stopped coming to feed in the Bay of Fundy. Changes to the ecosystem of the Bay and the Gulf of St. Lawrence are occurring—changes that researchers don't yet understand. But they fear the shorebirds and their habitats —the salt marshes and mudflats of the Bay and the Gulf—are at risk.

Thanks to a CFI award, the new Coastal Wetlands Research Facility will enable researchers at Mount Allison University to explore the causes and document the extent of these changes to the ecosystem. They will also explore the implications for the region's fisheries, agriculture, and tourism industries. The facility will increase the university's ability to attract graduates in the environmental sciences, and to train world-class innovators in environmental research and management.

Corrosion in Canada's nuclear reactors is a crucial environmental concern. It's also one of the factors that greatly affects the public's perception of the safety of this energy source. At the University of New Brunswick's new Surface and Interfacial Testing Facility, researchers are developing techniques to reduce corrosion and oxidization in CANDU reactors and light-water reactors—techniques that would cut operating costs and improve safety conditions for workers operating the reactors. As well, by improving the safety and efficiency of Canada's reactors, operators like the province of Ontario could use them for energy generation to a greater extent than plants that operate on "dirtier" fossil fuels.

The new Surface and Interfacial Testing Facility will test materials involved in other industries—such as pulp and paper, and metallurgy. It will also conduct experiments in heat-exchanger technology, and paint and coating technology, in partnership with private industry. In addition, using equipment donated by Ontario Hydro, and working with local companies like RPC and groups at the Incutech Complex, researchers will develop new technologies that can be applied in the mining industry and in space research

Breast cancer is the second-leading cause of cancer deaths in Canadian women. Ovarian cancer is the fourth. The social and financial impact of these cancers is devastating. The impact on children who lose their mothers to cancer cannot be calculated. At the Université de Montréal, researchers from different disciplines, including pathology, oncology, and genomics, are assembling a province-wide bank of blood and tumour-tissue samples to help them develop new therapies and treatment strategies for women with breast and ovarian cancer.



A contribution from the CFI is providing equipment—including microdissection lasers and high-density microchip technology—to collect, store, assess, and compare the biological samples. Developing a profile of Quebec cancer patients will also help researchers determine why mortality rates are higher for breast cancer patients in Quebec, and will illuminate strains of hereditary cancer in the Quebec population.

The quality of building materials and the installation of smoke detectors has had a significant impact on Canadian fire departments. Today, they respond less frequently than they did three decades ago to fires that engulf entire structures. Although it's good news, the downside is that firefighters have fewer chances to practice fighting large fires and to keep their skills and techniques sharp. In order to practice effectively, the Kitchener Fire Department and other fire services in surrounding municipalities need a facility where they can create and recreate structural fires, experiment with techniques, and learn new ways to fight fires.

Kick-started by a CFI contribution, the University of Waterloo, in collaboration with Wilfrid Laurier University, the Region of Waterloo, and area municipalities, has built a $10-million Fire Research and Fire Training Complex on a landfill site in Waterloo. The Region is donating $1 million worth of services, including road access, water supply, and treatment. The CFI contribution will enable the construction of a structural fire research building, where firefighters and researchers can use computer modeling, and repeatedly recreate conditions to study fire behaviour, suppression agents, detection systems, firefighting strategies, and firefighter safety.

University of Manitoba

Dr. Robert Roughley *is a researcher at the University of Manitoba's Department of Entomology. He has received CFI support for the development of a biological and networked database of information on the 1 million specimens in the J.B. Wallis Museum. Dr. Roughley–who had a new species of fly recently named after him–is supported through the Innovation Fund.*

University of Saskatchewan

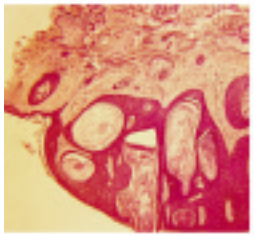
Dr. Tom Warkentin *(seated) is examining seeds of grain-bearing legumes under a high-powered microscope that has a digital camera mounted to it. The equipment is used at the Crop Development Centre at the University of Saskatchewan's College of Agriculture. A CFI New Opportunities researcher, Dr. Warkertin is joined by* **Tim Dament**, *a research technician at the centre.*

Researchers at the University of Winnipeg's chemistry, geography, and history departments are working together in a multidisciplinary project to help conserve Canada's artistic heritage. With support from a CFI grant, they are creating a unique facility—the Centre for Scientific and Curatorial Analysis of Painting Elements (C-SCAPE)—to analyze historical artwork. The researchers are using spectrophotometres—instruments that determine the intensity of wavelengths in a spectrum of light, and that help them date, identify, restore, attribute, and authenticate paintings. As part of the research, the University of Winnipeg is also working closely with the Winnipeg Art Gallery and the National Research Council's Institute for Biodiagnostics.

The state-of-the-art equipment, some of it portable, allows on-site and off-site analysis of art works. The research may also have applications in the medical-imaging community, and across a wide range of disciplines including: materials analysis, remote sensing, environmental monitoring, biodiagnostics, biomechanics, and law enforcement. For example, the portability of some of this equipment will allow researchers to travel to remote locations to conduct environmental monitoring and to analyze optical, remote-sensing data.

Canada has the largest proven reserve of heavy oil and tar sands in the world. Accessing that oil in an environmentally sustainable way is becoming increasingly important, given the impact of production on global warming, and rising oil prices that are imposing pressure for an increased supply.

At the University of Regina, researchers are seeking novel ways to recover oil with minimal impact on the environment. In partnership with the Petroleum Technology Research Center, the CFI is providing funding for equipment and a new research facility known as the Sustainable Heavy Oil Research Facility (SHORF). The facility will enable researchers to develop breakthrough technologies in heavy oil recovery and allow them to pursue economic success without compromising the environment. Interdisciplinary projects will emphasize the use of "green" technologies, accompanied by environmental impact studies.





The potential impact of this project and the new facility is significant. It has the potential to add billions of dollars in additional revenues to Saskatchewan's coffers. And the technological discoveries will spill over to other parts of Canada.

The goal of the project, which will create at least 80 new jobs, is to secure Canada's position as a world leader in developing and using environmentally acceptable but economically attractive technologies. Building on its industry partnerships, SHORF will train engineering students in sought-after areas of expertise, and will collaborate with petroleum companies to ensure that new technologies are quickly implemented. Other countries with oil reserves—including the United States, Venezuela, Brazil, and China—may also benefit from the transfer of these technologies.

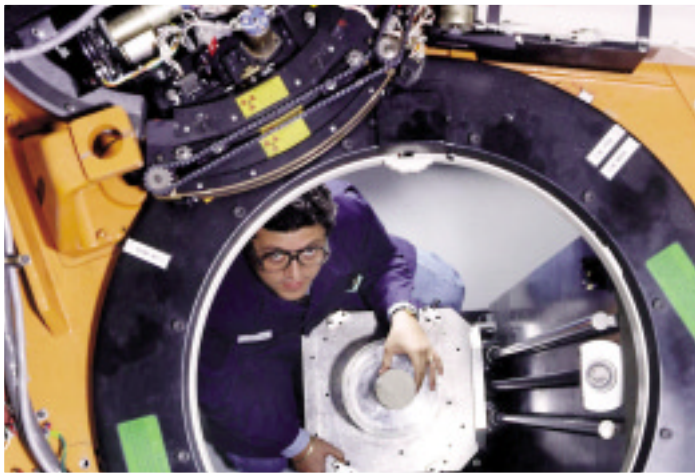
The exact workings of the human brain's intricate machinery remain a mystery—even to neurologists who specialize in brain function. As the Canadian population ages, diseases that affect brain function, such as Alzheimer's, frontal lobe degeneration, and Parkinson's, are increasingly robbing families of their loved ones long before their time. At the University of Lethbridge, researchers are concentrating on improving techniques to induce brain cells—damaged by these diseases or by injuries—to repair themselves. They are also analyzing critical brain functions, including learning, cognition, and language.

A new neuroscience facility at the University of Lethbridge will provide researchers with offices, laboratory space, and state-of-the-art digital imaging, microscopy, and cold-storage equipment. The facility and equipment will allow researchers to conduct studies into understanding the relationship between the brain and behaviour, and may eventually bring them closer to their overall goal: to one day unlock the mysteries of the brain.

If Canada is to remain at the forefront of such critical industries as microelectronics, metal production, and even health care, its universities must be able to forge ahead in the study of new materials and the methods of working with them. Developments in the field known as "material science" enable industries to make integrated circuits smaller, faster, and more energy efficient. That is the focus of the Pacific Centre for Advanced Materials and Microstructures, a collaboration between researchers at the University of British Columbia and Simon Fraser University. With a critical mass of more than 20 researchers, the centre is now tackling ambitious materials problems, including the development of new semiconductors containing nitrogen, environmentally friendly corrosion treatments, and methods critical to genome sequencing.

The centre is already solving one of its problems and demonstrating the kind of success and innovation that's possible with the right amount of support. Researchers here in Canada have long known that nitride semiconductors would make it possible for the microelectronics industry to construct completely new electronic and optical devices—that could do more, perform better, and cost less than devices currently on the market. But until now, the technology to produce nitride semiconductors did not exist in Canada. That is, until a grant from the CFI provided the centre with the latest in semiconductor apparatus, and processing and fabrication facilities. This new infrastructure has the potential to greatly impact the microelectronics industry. It also elevates the centre from an outstanding national research centre to a major player on the international materials scene.

University of Calgary



Dr. Apostolos Kantzas *heads the 25-member Porous Media and Process Tomography Research Group that has received support from the CFI to expand the University of Calgary's Imaging Research Laboratory. The focus of the group's research is on solving petroleum-industry problems. Dr. Kantzas is both a CFI New Opportunities researcher and a Canada Research Chair holder.*

University of British Columbia

Development during the first few years of life lays the foundation for lifelong learning, adjustment, and well-being. **Dr. Janet Werker** *has received support from the CFI to establish the Brain Research Centre at the University of British Columbia to study the perceptual sensitivities of young infants and how they affect their cognitive development. Dr. Werker is a Canada Research Chair holder.*

RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Canada Foundation for Innovation (CFI) were prepared by the CFI's management, which is responsible for the integrity and fairness of the data presented. In certain cases, this data may include amounts that are based on best estimates and judgment. The financial statements were prepared in accordance with generally accepted accounting principles, including the accounting recommendations for not-for-profit organizations in Canada. Financial information appearing throughout this annual report is consistent with the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, and for the accounting systems from which they are derived, management maintains the necessary system of internal controls. This system is designed to provide assurance that transactions are authorized, assets are safeguarded, and proper records are maintained. The system is further validated by our external auditors who periodically review and evaluate the accounting records and related internal controls, and who report any findings to management. The external auditors' findings and recommendations are reported to the CFI's Audit and Finance Committee and the Board of Directors.

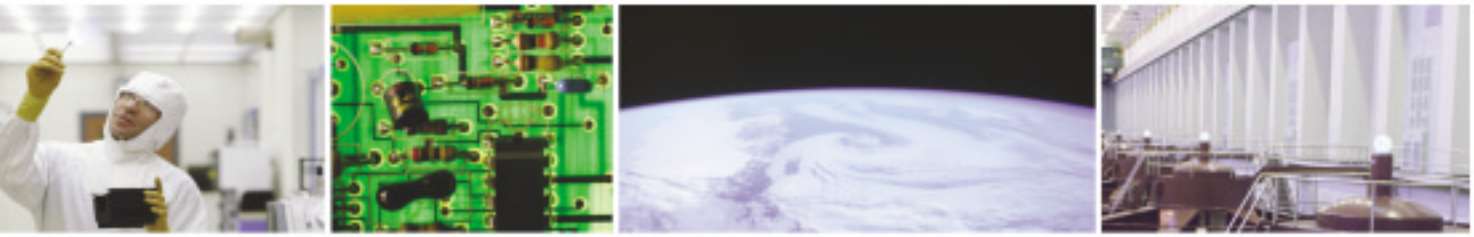
The Board of Directors oversees management's responsibilities for financial reporting through the Audit and Finance Committee. The Committee reviews the financial statements and recommends them to the Board for approval and submission to the Members. The Committee's other key responsibilities include reviewing the budgets, internal control procedures, investments, and advising the Directors on auditing matters and financial reporting issues.

Ernst & Young LLP, independent auditors appointed by CFI Members on the recommendation of the Audit and Finance Committee, have examined the financial statements and their report follows. The independent auditors have full and unrestricted access to both the Audit and Finance Committee and the Board of Directors to discuss their audit and related findings as to the integrity of the financial reporting and the adequacy of the system of internal controls.

Lorne A. Babiuk
Chair,
Audit and Finance Committee

Manon Harvey, CA
Vice-President,
Finance

AUDITORS' REPORT



To the Members of the

CANADA FOUNDATION FOR INNOVATION

We have audited the balance sheet of the Canada Foundation for Innovation as at March 31, 2001 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Ottawa, Canada,
May 25, 2001.

Chartered Accountants

Balance Sheet *As at March 31*	**2001 $**	**2000 $**
ASSETS		
Cash	**16,009,840**	902,955,464
Interest and other receivables	**36,267,053**	20,459,613
Investments *[note 2]*	**1,739,836,187**	952,266,875
Prepaid expenses	**2,400**	23,557
Capital assets *[note 3]*	**259,089**	125,227
	1,792,374,569	1,875,830,736
LIABILITIES AND NET ASSETS		
Accounts payable and accrued charges	**238,380**	2,925,509
Deferred contributions *[note 4]*		
Expenses of future periods	**1,791,877,100**	1,872,780,000
Capital assets	**259,089**	125,227
	1,792,136,189	**1,872,905,227**
Commitments *[note 6]*		
Net assets *[note 5]*	**—**	—
	1,792,374,569	1,875,830,736

See accompanying notes

Statement of Operation *Year ended March 31*	**2001 $**	**2000 $**
REVENUES		
Recognition of deferred contributions relating to amounts granted to eligible recipients	**183,201,622**	114,173,727
Recognition of deferred contributions relating to current year operations	**4,828,043**	4,041,827
Amortization of deferred contributions relating to capital assets	**138,570**	54,030
	188,168,235	118,269,584
EXPENSES		
Grants to eligible recipients	**183,201,622**	114,173,727
General and administration	**4,828,043**	4,041,827
Amortization of capital assets	**138,570**	54,030
	188,168,235	118,269,584
Excess of revenues over expenses	—	—

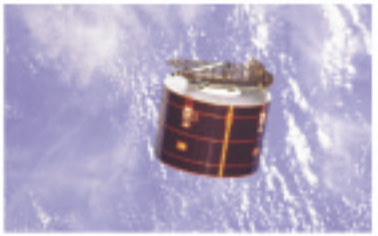
See accompanying notes

Statement of Cash Flows *Year ended March 31*	**2001 $**	**2000 $**
OPERATING ACTIVITIES		
Excess of revenues over expenses	—	—
Items not involving cash:		
Amortization of capital assets	**138,570**	54,030
Amortization of deferred contributions related to capital assets	**(138,570)**	(54,030)
Net increase (decrease) in deferred contributions related to expenses of future periods	**(80,902,900)**	1,033,437,842
Change in non-cash operating working capital	**(18,473,412)**	(2,566,749)
Cash provided by (used in) operating activities	**(99,376,312)**	1,030,871,093
FINANCING AND INVESTING ACTIVITIES		
Purchase of capital assets	**(272,432)**	(12,160)
Increase in deferred contributions related to capital assets	**272,432**	12,160
Net purchase of investments	**(787,569,312)**	(130,438,177)
Cash used in financing and investing activities	**(787,569,312)**	(130,438,177)
Net increase (decrease) in cash	**(886,945,624)**	900,432,916
Cash, beginning of year	**902,955,464**	2,522,548
Cash, end of year	**16,009,840**	902,955,464

See accompanying notes

NOTES TO FINANCIAL STATEMENTS



GENERAL

The Canada Foundation for Innovation ["the Foundation"] was incorporated under Part 1 of the Budget Implementation Act, 1997 on April 25, 1997 for the purpose of providing financial support for the modernization of research infrastructure at Canadian post-secondary educational institutions and research hospitals in the areas of science, engineering, health and the environment.

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

a] Revenue recognition

The Foundation follows the deferral method of accounting for contributions which include government grants and, potentially, donations from other sources.

Under the Budget Implementation Act, 1997 ["the Act"], the Foundation received a grant from the Government of Canada in the amount of $800 million plus accrued interest of $964,384 to be held, invested, administered and disbursed in accordance with the Act and the related funding agreement between the Foundation and the Government of Canada. An additional grant of $200 million was committed to the Foundation in the 1999 federal budget and a grant of $900 million was committed in the 2000 federal budget. Both amounts were received in the fiscal year ended March 31, 2000. As well, an additional grant of $500 million was committed to the Foundation in the October 2000 federal Economic Statement and Budget Update, and the federal government announced, in March 2001, a further $750 million investment in the Foundation. The total new funding of $1,250 million announced in the fiscal year ended March 31, 2001 is expected to be received in the summer of 2001, subject to approval of certain legislative changes. As such, the Foundation has not recorded any amounts receivable at March 31, 2001 for these grants.

Grants received, together with future investment revenue, are directed to the granting of amounts to eligible recipients and the payment of the Foundation's operating expenses and acquisition of capital assets in accordance with the requirements of the Act and the terms of the funding agreement. Grants received and future restricted interest earned on the invested amounts will be deferred and recognized as income as expenditures are incurred by the Foundation.

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.

b] Grants to eligible recipients

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

c] Investments

Investments are recorded at cost. Premiums or discounts are amortized over the remaining term of the investments. If the market value of investments becomes lower than cost and this decline in value is considered to be other than temporary, the investments are written down to market value.

d] Capital assets

Purchased capital assets are recorded at cost. 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 Foundation'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 rates:

Leasehold improvements	Over the term of the lease
Furniture and other equipment	20%

2. INVESTMENTS

Investments comprise the following financial instruments:

	March 31, 2001		March 31, 2000	
	COST $	MARKET VALUE $	COST $	MARKET VALUE $
Money-market funds	**50,996,069**	**51,031,682**	61,721,415	61,785,147
Bonds	**1,462,467,541**	**1,492,802,115**	890,545,460	880,462,980
NHA Mortgage backed securities	**226,372,577**	**232,534,863**	—	—
	1,739,836,187	**1,776,368,660**	952,266,875	942,248,127

3. CAPITAL ASSETS

Capital assets consist of the following:

	March 31, 2001		March 31, 2000	
	COST $	ACCUMULATED AMORTIZATION $	COST $	ACCUMULATED AMORTIZATION $
Leasehold improvements	**111,393**	**66,863**	31,809	17,233
Furniture and other equipment	**444,738**	**230,179**	251,890	141,239
	556,131	**297,042**	283,699	158,472
Accumulated amortization	**(297,042)**		(158,472)	
Net book value	**259,089**		125,227	

4. DEFERRED CONTRIBUTIONS

a] Expenses of future periods

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

	2001 $	2000 $
Balance, beginning of year	**1,872,780,000**	839,342,158
Add grants received	—	1,100,000,000
Add restricted investment revenue earned	**107,399,197**	51,665,556
Less amount recognized as revenue	**(188,029,665)**	(118,215,554)
Less amount applied toward capital assets aquired	**(272,432)**	(12,160)
Balance, end of year	**1,791,877,100**	1,872,780,000

b] 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.

	2001 $	2000 $
Balance, beginning of year	**125,227**	167,097
Restricted grants applied toward the purchase of capital assets	**272,432**	12,160
Less amount amortized to revenue	**(138,570)**	(54,030)
Balance, end of year	**259,089**	125,227

5. RESTRICTED CONTRIBUTIONS AND NET ASSETS

All of the net assets of the Foundation are subject to externally imposed restrictions as per the requirements of the Budget Implementation Act, 1997 which governs the Foundation and the terms of the related funding agreement between the Foundation and the Government of Canada. Investment revenue to be earned on the grants received from the Government of Canada is also restricted. Accordingly, the entire net assets of the Foundation 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 therefore not been prepared since it would not provide additional useful information.

6. COMMITMENTS

During the year, the Foundation awarded grants for a maximum amount of $408.8 million [2000 - $266.7 million]. Total disbursements to eligible recipients during the fiscal year were $183.2 million [2000 - $114.2 million]. To date, the Foundation has awarded grants for a maximum amount of $873.3 million, of which $324.7 million has been disbursed as of the end of the fiscal year. The balance of the awarded grants will be recorded as expenses in subsequent years as funds are disbursed.

The Foundation entered into a lease agreement during its 1998 fiscal year for its premises on 350 Albert Street, Ottawa for a five-year term ending June 2002. The minimum annual lease payments related to these premises are approximately $188,000.

7. PENSION PLAN

The employees of the Foundation may elect to become members of the Association of Universities and Colleges of Canada [AUCC] Pension Plan, a defined contribution plan managed by Clarica Life Insurance Company. The employer contributions made to the Plan during the year ended March 31, 2001 amounted to $28,305 [2000 - $23,876].

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of amounts receivable and payable approximate their fair value given the relatively short period to maturity of the instruments. The fair values of the investments, which are based on the year end quoted market prices, are disclosed in note 2.

9. TAX STATUS

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

10. SUBSEQUENT EVENT

The Foundation has signed a letter of intent to lease premises on 230 Queen Street, Ottawa for a ten-year period starting August 2001. The minimum annual lease payments related to the new premises will be approximately $554,000. The Foundation expects to sublet its current premises.