

GLOSSARY OF ACRONYMS

ACCT	Alliance for Commercialization of Canadian Technologies
APC	Automotive Partnerships Canada
CAMS	CFI Awards Management System
CIHR	Canadian Institutes of Health Research
CIIF	College-Industry Innovation Fund
CRC	Canada Research Chair
CRKN	Canadian Research Knowledge Network
ERA	European Research Area
IOF	Infrastructure Operating Fund
LEF	Leading Edge Fund
LOF	Leaders Opportunity Fund
MAC	Multidisciplinary Assessment Committee
MSI	Major Science Initiative
NIF	New Initiatives Fund
NSERC	Natural Sciences and Engineering Research Council
OMS	Outcome measurement study
OPEA	Overall performance evaluation and value-for-money audit
PERAF	Performance, evaluation, risk and audit framework
POMS	Platform outcome measurement study
PPR	Project progress report
RHF	Research Hospital Fund
SEIA	Socioeconomic impact assessment
SSHRC	Social Sciences and Humanities Research Council

ON THE COVER: *A cross-section of baleen from a sei whale shows the amount of calcium present in the whale's fringed feeding bristles. Looking at the mineral makeup of baleen helps scientists explain the variation in baleen across different species. (Image produced using proton-induced X-ray emission technology funded by the Canada Foundation for Innovation. Lawrence Szewciw et al. 2010/University of Guelph)*

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CANADA FOUNDATION FOR INNOVATION | FONDATION CANADIENNE POUR L'INNOVATION

450-230 Queen Street,
Ottawa, ON K1P5E4
Tel: 613-947-6496
Fax: 613-943-0923
E-mail: info@innovation.ca
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FROM RESEARCH
TO INNOVATION TO
ENTERPRISE

Across Canada, universities, colleges, research hospitals and non-profit institutions are hotbeds of creativity, learning and collaboration where researchers in all disciplines strive to advance knowledge in their field, often while working side by side with Canadian business. Together, researchers and entrepreneurs are bringing new products, technologies and services to the marketplace and helping maintain and create jobs.

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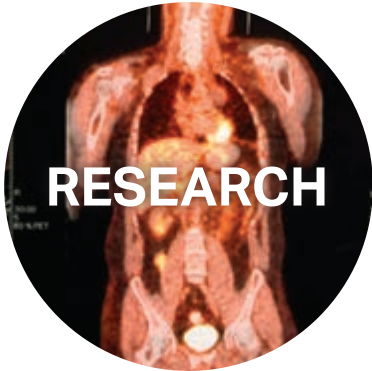
The Canada Foundation for Innovation (CFI) plays an important role in this innovation system. As Canada's leading funding organization dedicated exclusively to supporting advanced research infrastructure, the CFI is enabling the basic science and applied research that leads to discoveries, innovations and enterprise.

One way to ensure Canada's success is to invest in research that advances new ideas and new knowledge. These leaps forward give us insight into how we live, and many can ultimately be commercialized. This improves the quality of life in our communities, which reap the rewards of economic growth, a healthier environment and improved public infrastructure and services. The Hospital for Sick Children in Toronto, for example, is collaborating with B.C.-based aerospace company MacDonald, Dettwiler and Associates Ltd. to develop the KidsArm, the first robotic surgical system in the world designed to operate on small children and babies. The image-guided robot will help surgeons perform less invasive surgery and reduce the average time of some procedures, such as suturing, by 90 percent.

In another example, researchers in the Marine Natural Products Lab at the University of Prince Edward Island have created a biotech firm that analyzes bacteria from the ocean floor to create new natural products with anti-fungal, anti-inflammatory or anti-cancer properties. The company's expertise in bio-marine sampling and processing has attracted partnerships with international companies to help produce health and beauty products as well as anti-cancer drugs.

And at McGill University's Centre for Interdisciplinary Research in Music Media and Technology in Montréal, engineers have worked with aerospace company, Bombardier, to make flying more comfortable for passengers, giving a Canadian industry an international advantage.

The Government of Canada has long been committed to building a prosperous future for this country based on research and innovation. Its sustained investments in state-of-the-art research infrastructure through the CFI have helped create a robust research environment that brings people together to make discoveries and innovate.



RESEARCH

STRAIGHT TO THE HEART OF THE MATTER

At the University of Ottawa Heart Institute, doctors use a safe radioactive dye to take an intricate picture of the human heart in mere seconds. The dye, developed by Quebec-based DraxImage, is used with positron emission tomography (PET) technology to reveal detailed measures of blood flow, the performance of the heart's muscles and valves, and even the effectiveness of prescribed drugs. It is an innovative approach to addressing cardiovascular disease and could lead to earlier detection and new treatments at an institute that has emerged as a world-leading centre in PET imaging.



INNOVATION

CONSTRUCTION SITES GET CONNECTED

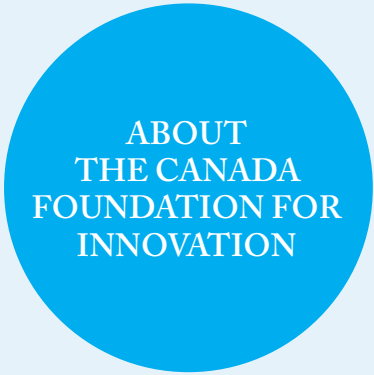
Construction workers have to remain in constant contact with project managers to stay on track and on budget. Without the right technology, however, it is difficult to communicate in a timely manner. This challenge prompted a University of Calgary researcher to develop a mobile information kiosk called the i-Booth, which helps project managers quickly and easily share information with their on-site workers. During Alberta's construction boom, the kiosk helped companies stay safe and manage a shortage of workers. Amid the current economic recovery, it is helping them do more with less.



ENTERPRISE

BIOMEDICAL HUB BORN OF INTERNATIONAL EXPERTISE

Manitoba's international leadership in infectious disease, medical devices and pharmaceutical research has led to the steady growth of a biomedical technology cluster in Winnipeg. About 100 life sciences-related companies and organizations generate sales of more than \$400 million annually and employ 4,200 highly skilled people. A number of companies, including Biovail Corporation, IMRIS Inc., Intelligent Hospital Systems and Cangene Corporation, have all met with global success.



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 and supporting private-sector innovation which helps create high-quality jobs that strengthen Canada's position in the knowledge economy.



POSITIONING CANADA'S RESEARCH COMMUNITY FOR SUCCESS

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 facilities 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.

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.

FUNDING EXCELLENCE, MAXIMIZING TAXPAYER DOLLARS

The CFI has a well-established, 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 for support through a CFI Fund, 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 institutions and their partners in the public, private and non-profit sectors. To date, the CFI has committed more than \$5.9 billion in support of 7,879 projects at 138 research institutions in 66 municipalities across Canada. CFI contributions, along with those from institutions and their partners, have resulted in an investment of more than \$12 billion in research infrastructure in Canadian institutions over 15 years.

GOVERNMENT OF CANADA INVESTMENTS* IN THE CFI



* Economic Action Plan 2013 announced that \$225 million of unallocated interest income generated by the CFI from previous federal investments would be committed to supporting advanced research infrastructure priorities and sustaining the long-term operations of the CFI. This \$225 million is in addition to the \$1.2 billion of interest income generated by the CFI which is committed under both the original and the 2010 funding agreements with the Government of Canada.

** 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.



MESSAGE

When five leading Canadian researchers came to Ottawa in February 2013 with their industry partners, they met with dozens of parliamentarians, who gained a deeper understanding of how partnerships between the academic and private sectors are helping fuel the Canadian economy. The gathering, hosted by the Canada Foundation for Innovation (CFI) and Senator Kelvin K. Ogilvie, showcased the collaborative spirit that underpins all of the work the CFI does and the collaborative nature of Canada's entire research ecosystem.

Our activities over the past year — the CFI's 15th anniversary year — reinforced this spirit. Anniversaries are a time to look back and celebrate, but also a time of renewal and evolution.

In 2012-13, the CFI partnered with the Natural Sciences and Engineering Research Council (NSERC), the Canadian Institutes of Health Research (CIHR) and Genome Canada on the Discovery Frontiers program to help enhance the productivity and impact of genomics research. And along with the Social Sciences and Humanities Research Council (SSHRC), NSERC and several agencies in other countries, the CFI also supports the Digging into Data Challenge, a funding program that aims to improve our understanding of human behaviour, enhance the quality of life for Canadians and gain new insights into our world.

In a similar vein, projects funded by the CFI in a range of areas, from health research and the social sciences to

engineering, either reinforced existing relationships or forged new connections. For example, world-renowned geographer Fraser Taylor, a professor at Carleton University in Ottawa, is developing an open-source "cybercartography" atlas of Canada's Arctic, allowing people who live in the North to play a major role in how their region is mapped and seen by outsiders.

And consider the Prometheus Project, a research hub for materials science and engineering innovation and commercialization. Based in a facility called 4D Labs on the Burnaby, B.C., campus of Simon Fraser University, it brings together three other provincial institutions — the University of Victoria, the University of British Columbia and the British Columbia Institute of Technology — and has the overarching goal of turning its world-class research capacity into jobs and economic growth in industries such as energy and health.

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The CFI continues to build on Canada's state-of-the-art research infrastructure thanks to the ongoing support of the Government of Canada.

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The Prometheus Project received support in this year's Leading Edge Fund/New Initiatives Fund (LEF/NIF) competition. After a rigorous merit-based review of a very strong field of proposals — a spectrum of research ranging from discovery to innovation — 75 diverse projects at 34 institutions across the country were supported.

The CFI continues to build on Canada's state-of-the-art research infrastructure thanks to the ongoing support of the Government of Canada. In addition to the \$500 million that was allocated to the CFI in Budget 2012, \$225 million in interest income earned by the CFI was announced in Budget 2013. The Government of Canada strongly supports the application of new knowledge to improve the competitiveness of Canada and Canadians. The CFI is an active participant in this important initiative. We are proud to continue to be part of the government's research and innovation strategy and are excited by the possibilities this funding will provide to universities, colleges and other institutions to enrich their research infrastructure needs.



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

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



A handwritten signature in black ink, appearing to read 'Gilles G. Patry'.

Dr. Gilles G. Patry
President & CEO



RESULTS
2012-2013

STRATEGIC ROADMAP

In March 2012, the CFI's strategic roadmap was adopted by its Board of Directors. Over the past fiscal year, the organization has begun implementing the strategic directions identified in the road map, including:

- / Maintaining the integrity of the CFI merit-review process to ensure that only research infrastructure projects meeting the highest levels of excellence receive support;
- / Placing greater emphasis on the sustainability of CFI-funded projects;
- / Developing funding partnerships with the three federal granting agencies and Genome Canada to improve application processes and increase the overall impact of federally funded research and technology development;
- / Engaging with research communities in the United States and Europe to share best practices in the management of large-scale research facilities, gather insight on research trends related to key challenges and discuss ways to maximize collaboration to increase the use of, and gain impact from, research infrastructure;
- / Implementing the 2012 CFI communications strategy to effectively inform Canadians about the value and impact of federal investments in research infrastructure; and
- / Developing new methodologies to better assess and evaluate the impacts of research infrastructure on Canada's research capacity.

DELIVERING PROGRAMS

In 2012-13, the CFI delivered the funds allocated in its 2010 Funding Agreement with the Government of Canada and continued to monitor previously awarded funds. As outlined in the CFI's Strategic Roadmap, program delivery is guided by four main objectives.

1. Attract and retain the world's top research talent

Leaders Opportunity Fund (LOF): helps institutions attract and retain top researchers.

The CFI holds three LOF competitions each year to assist universities in attracting and retaining highly qualified researchers. In 2012-13, the CFI committed approximately \$62 million to 397 projects under this fund.

2. Enable world-class research and technology development that leads to social, economic, environmental and health benefits for Canada

Leading Edge Fund (LEF) and New Initiatives Fund (NIF): sustains and enhances previous CFI investments and supports promising new research areas.

For the 2012 LEF/NIF competition, as in previous years, the CFI challenged institutions to develop projects that sustain and enhance the research and technology development capacity created by past CFI infrastructure investments and encouraged them to set priorities that build on their distinct research and technology development advantages. The CFI also challenged institutions to anticipate how research and technology development may evolve and to advance projects that would allow them to seize opportunities in breakthrough research or technology development activities.

Following proposal submission in April 2012, the CFI conducted its rigorous merit-review process between May and October 2012, which included: expert review committees, Multidisciplinary Assessment Committees (MACs) and a special MAC that formulates the final recommendations for funding.

At its November 2012 meeting, the CFI Board of Directors approved \$166 million in funding for 66 proposals under the LEF and nine under the NIF. Recognizing the excellence of the recommended applications, the Board of Directors authorized \$11 million in additional funding (drawn from amounts unused by previously funded infrastructure projects), beyond the original \$155 million allocated to the competition.

Major Science Initiatives (MSI) Fund: contributes to the operating and maintenance costs of unique large-scale research facilities.

The four successful MSI applicants — the Canadian Light Source at the University of Saskatchewan, Compute Canada Calcul Canada, SNOLAB in Sudbury, Ont., and Ocean Networks Canada in Victoria — finalized their awards in 2012-13 by securing partner funding and developing performance metrics. Of the \$185 million in total awards, \$23 million was disbursed during the fiscal year. The CFI met regularly with each of the four MSIs to monitor and support the award finalization process, as well as to discuss the integrated oversight framework and annual financial and performance reporting requirements. The CFI continued developing its expertise on the governance, management and operations oversight of MSIs by communicating with funding agency counterparts in the United States, the European Union and Australia.

Infrastructure Operating Fund (IOF): helps to maximize the efficient use of CFI-funded research infrastructure.

The IOF helps cover a portion of the operating and maintenance costs of CFI-funded infrastructure to ensure it is used optimally. IOF allocations are calculated as 30 percent of the finalized CFI contribution for eligible projects. For the year ended March 31, 2013 the CFI allocated a total of \$103 million of operational support to institutions.

Research Hospital Fund (RHF): enables research that will lead to groundbreaking discoveries and knowledge that can be translated quickly and effectively into

improved health for Canadians, more effective health services and products, and a better health care system.

Extensive post-award activity related to the Large Scale Institutional Endeavours component of the RHF continued throughout 2012-13, including ongoing monitoring of project implementation to ensure accountability. For these large-scale infrastructure projects involving complex construction and renovation, the CFI has been monitoring a set of key performance indicators to measure and improve implementation plans, and budget and risk management practices for each funded project.

3. Support private-sector innovation and commercialization

College-Industry Innovation Fund (CIIF): enhances the capacity of colleges to foster business innovation and commercialization in Canada by providing them with state-of-the-art, industry-relevant research infrastructure to foster partnerships with the private sector in a specific area of strategic priority to the institution.

CIIF proposals were received in April and September 2012, and the CFI Board approved \$9.6 million in funding for 17 projects at 17 colleges under two funding streams. Stream 1 proposals came directly from colleges with established private-sector partnerships while Stream 2 proposals were jointly submitted to the CFI and to NSERC's College-Community Innovation Program, Innovation Enhancement Grants.

As part of the CFI's ongoing commitment to continuously improve, CFI staff conducted a series of in-house reviews and consultations with the college community following the results and outcomes of the first round of competitions under the two funding streams. This led to several minor improvements to the second round of competitions under the CIIF.

Automotive Partnerships Canada (APC): supports R&D geared at helping the Canadian automotive sector become more innovative.

The CFI Board has allocated \$15 million in support of the APC, and all applications are subject to a merit-based review and Board approval. The CFI considers requests for APC research infrastructure funding when applicants can demonstrate that the infrastructure is an essential part of a larger, integrated project involving research activities supported by other partner agencies. In 2012-13, the CFI invested \$509,589 in two APC proposals. To date, the CFI has invested almost \$5.4 million of the \$15 million total allocation for APC, exclusive of Infrastructure Operating Funds.

4. Enhance accountability to responsibly steward public funds

Understanding and measuring the impacts of public R&D expenditures has become a central concern of research funders who are accountable for the efficiency of public spending. In addition to monitoring operational efficiency, 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

Operational efficiency and impact

In March 2012, the CFI began to develop a balanced scorecard to track the progress of the CFI's 2012-17 strategic roadmap. The scorecard includes operational performance indicators and is intended to be a tool to visually depict important information to assist in strategic and operational decision-making.

Project progress reports

The CFI redeveloped its annual Project progress report questionnaire and reporting requirements to minimize burden and improve the quality and usefulness of data. The new questionnaire and reporting requirements were implemented in April 2012. The CFI prepared an analysis

of the aggregate data — including all aspects of the progress report — from the 2012-13 reporting year. The new, more visual report demonstrates how CFI funding is contributing to enhancing Canadian research capacity and generating important benefits for Canadians.

Outcome measurement

Based on the findings from an independent evaluation of the Outcome measurement study (OMS) methodology, the CFI is exploring ways to enhance the value of the OMS and minimize the burden it puts on institutions. However, the CFI launched a new tool, the Platform outcome measurement study (POMS), in 2012-13. Building on the strengths of the OMS, it was designed to assess the degree to which the CFI's investment in large-scale, specialized, purpose-built research infrastructure that serves specific needs of the Canadian research community has had a transformative impact and is helping the CFI meet its objectives. The first POMS focused on the Canadian Research Knowledge Network (CRKN) project. It found that the CRKN, which negotiates large-scale licences for digital content with publishers for its more than 1.2 million users from 75 member universities, has saved members an estimated \$1.43 billion since the network's inception in 2000.

Socioeconomic impact assessment

In late 2011, the CFI, in partnership with the Canadian Institutes of Health Research (CIHR), launched a collaborative pilot study to assess the social and economic impacts of investments in Canada's university-based health research enterprise. The project team, which included staff from the CFI and CIHR, was led by a senior economist at RTI International. The project explored outcomes arising from an ambitious list of technologies. As a result of a number of operational considerations, including the availability of data and the maturity of the technologies, the team subsequently focused its economic analysis on one technology: an algorithm developed by Ting Lee at Western University which

analyzes perfusion data from a computed tomography (CT) scanner. The team examined the development of this technology from concept to prototype to a diagnostic tool. Although the outcomes of the clinical trials, which are currently underway, will further influence the return on investment, calculations suggest that there has already been a two-fold return on federal investments as calculated based on available data for the use of CT perfusion data in acute stroke diagnosis and care.

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 2012 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.

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 880 financial reports were received and reviewed in 2012-13.

IMPROVING PROGRAM DELIVERY

The CFI carried out a variety of initiatives in 2012-13 to improve program delivery, ensure accountability and adjust existing processes to better meet the organization's objectives.

Working group on reducing burden

In today's business and institutional environment, organizations have to be responsive to succeed. In an effort to improve the efficiency of program delivery, the CFI reviewed a number of its own processes, activities and requirements and invited institutions to do the same. Following the analysis of more than 300 responses to a web-based survey from CFI stakeholders across the country, the working group developed a list of eight top options for consideration. The implementation of reducing burden options began in mid-2012 and will continue through 2013-14 and include: adopting a risk-based approach to the oversight of all CFI-funded projects, streamlining proposal forms by eliminating redundancy and removing the requirement for some information, and streamlining the award finalization process.

Effective oversight and monitoring of CFI projects

The CFI's Programs, Finance and Evaluation and Outcome Assessment teams conducted a comprehensive review of the CFI's oversight processes related to funding decisions, project implementation and project completion. The review covered CFI policies and the integration of various monitoring tools. As a result, the CFI adopted a revised institutional monitoring visit approach, introduced a tool for risk assessment of funded projects and revised reporting frequencies for financial reports and Project progress reports.

CFI Awards Management System (CAMS): information systems development

Using CAMS, the CFI implemented a number of major improvements to the 2012 LEF/NIF competition which included a single application form attachment, a fully electronic application submission process, an online expert review module, and enhanced delegating and sharing capabilities for project leaders and collaborators. Other CAMS developments for 2012-13 included the launch of all streams of LOF competitions, as well as a new CAMS form builder that allows the CFI to quickly launch new competitions.

TACKLING BIG DATA

Governments, educational institutions and organizations of all types are starting to realize that they must better exploit the enormous flows of data that are becoming an essential part of modern economic activity, innovation and growth. To help address this "big data" challenge, the CFI partnered with a number of granting agencies in Canada and abroad in 2012-13 to support relevant research.

Digging into Data Challenge

In 2012-13, the CFI joined eight other research funding agencies from Canada, the United States, the United Kingdom and the Netherlands to fund the

development of new approaches to analyzing vast digital resources applicable to humanities and social science research, such as books, survey data, economic data, newspapers, music, and other scholarly, scientific and cultural heritage resources that are now being digitized on a large scale. This project will help explore how computationally intensive research methods can improve our understanding of human thought and behaviour.

Discovery Frontiers: Exploring big data

Massive amounts of data are being generated in genomics research across all life science sectors. The lack of efficient tools and methodologies available to effectively mine, rapidly access and efficiently analyze vast quantities of genomic information and integrate it with other data sets is a major challenge for the research community.

To address this global research challenge, NSERC, Genome Canada, CIHR and the CFI partnered on a call for proposals for projects that will advance big data science in genomics research. The aim of this initiative is to support the development of tools and methodologies to integrate currently available complex data sets in fields such as genomics, as well as phenotypic data and data from other related fields of biological sciences.

COMMUNICATING WITH CANADIANS

This past year, the CFI celebrated its 15th anniversary with several events and activities that both highlighted the organization's achievements in enabling world-class research in Canada and maintained its reputation as an expert on Canada's R&D landscape.

Through a range of public affairs, external relations and communications activities, the CFI showcased the key results of its funding programs including the social and economic outcomes of its investments, demonstrating how *Research builds communities*.

Some communications highlights from 2012-13:

- / The CFI launched a monthly electronic newsletter in April 2012, *Innovation now*, to showcase how CFI-funded research is transforming lives. The publication is sent to parliamentarians, government decision-makers and other stakeholders.
- / With support from the CFI, the press breakfast at the 2013 American Association for the Advancement of Science conference in Boston in February featured four leaders of CFI-funded projects who spoke on topics ranging from concussion in sport to research in the Canadian Arctic.
- / The CFI worked with *The Globe and Mail* to produce a special 12-page supplement called "Innovation Canada," which was published on April 25, 2012, and featured leaders of CFI-funded projects from across the country, along with op-eds by Dr. Gilles Patry, Minister of State Gary Goodyear and others.
- / The CFI's Annual Public Meeting in December 2012 featured guest speaker Elyse Allan, President and CEO of GE Canada who delivered a talk entitled "From Ideas to Execution — Canada's Innovation Challenge."
- / In February 2013, Senator Kelvin K. Ogilvie and the CFI hosted "From research to innovation to enterprise," an event held on Parliament Hill that connected leaders of CFI-funded projects and their industry partners with members of Parliament and Senators.

RESULTS 2012-2013

COMMITTED AND PROJECTED AMOUNTS
BY THE CFI BOARD (\$M) 1998-2015

1997 Funding Agreement (last amended 2009)						
Fund	1998-2012	2012-2013*	2013-2014	2014-2015	Unallocated	Total
Innovation	1,782					1,782
Infrastructure Operating	1,001	3	3	15		1,022
Leaders Opportunity (and New Opportunities)	841		10	52		903
Leading Edge/ New Initiatives	840	11				851
Research Hospital	499					499
International	202					202
Canada Research Chairs Infrastructure	199					199
National Platforms	84					84
Automotive Partnership Initiative	6	1	4	4		15
Other funds	78					78
Unused amounts*	(52)					(52)
Unallocated interest earnings					7	7
Subtotal (\$M)	5,480	15	17	71	7	5,590
2010 Funding Agreement						
Major Science Initiatives	178			7		185
Leading Edge/ New Initiatives		155				155
Leaders Opportunity		61	79			140
Infrastructure Operating	3	68	25			96
College Industry Innovation	12	10	3			25
Subtotal (\$M)	193	294	107	7	-	601
Total (\$M)	5,673	309	124	78	7	6,191

Figures above do not include amounts that will arise from the \$500M announced in Budget 2012 or the \$225M announced in Budget 2013.

* Cumulative grants awarded to March 31, 2013, are \$6,034M; of this amount \$52M will be unused by eligible recipients (as confirmed by final financial reports as at March 31, 2013) and recommitted.

GOVERNANCE

Board of Directors

The CFI Board of Directors meeting in June 2012 in Ottawa was followed by the annual meeting of CFI Members. The Board also met in November 2012 in Quebec City and in March 2013 in Ottawa. 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.

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 Leigh Murphy participate in the nomination discussions and recommendations of Board Directors and Members at meetings of the Board's Governance and Nominating Committee.

CFI Board of Directors

Kevin P. D. Smith, *Chair*
 Louise Proulx, *Vice-chair*
 Sheila A. Brown
 Carolyn Cross (*appointed June 2012*)
 William Driedzic
 Suzanne Fortier*
 Albert Friesen
 Liz Harrison
 Linda Hohol
 Michel Kelly-Gagnon
 Rod McInnes (*appointed June 2012*)
 Gordon F. Stovel
 John Weissenberger

Committees

Audit and Finance

Linda Hohol, *Chair*
 Carolyn Cross
 William Driedzic
 Albert Friesen
 Kevin P. D. Smith
 Gordon F. Stovel

Investment

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

CFI Members

David Fung, *Co-chair*
 Roland Hosein, *Co-chair*
 John Anthony Boeckh
 Harold Cook
 Sandra Greer
 Linda Humphreys
 Marie-Andrée Mallette
 Rick Miner
 Ronald Morrison (*appointed June 2012*)
 Heather Munroe-Blum
 Leigh Murphy
 Emőke Szathmáry
 Vianne Timmons (*appointed June 2012*)

Members Governance and Nominating Committee

Linda Humphreys, *Chair*
 Rick Miner
 Leigh Murphy

Governance and Nominating

Sheila A. Brown, *Chair*
Liz Harrison
Rod McInnes
Louise Proulx
Kevin P. D. Smith
John Weissenberger

Terms that expired in 2012-13

Robert J. Giroux (*June 2012*)
Natalie Dakers (*June 2012*)

Terms that expired in 2012-13

Michel Nadeau (*June 2012*)
Indira Samarasekera (*June 2012*)

**(Resigned March 2013)*

RANGES OF REMUNERATION

Board of 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 2012-13, the remuneration of Board Directors ranged from \$0 to \$20,500.

For the fiscal year ending March 31, 2013, compensation for CFI staff was within the following annual salary ranges:

CFI Management (Officers)

Gilles G. Patry, *President and CEO*
\$207,000 to \$289,900

Robert Davidson, *Vice-President, Programs and Planning*

Manon Harvey, *Vice-President, Finance and Corporate Services*

Pierre Normand, *Vice-President, External Relations and Communications*
\$137,200 to \$189,900

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

Director, Programs
\$108,700 to \$145,000

Director, Communications

Director, Corporate Services

Director, Evaluation and Outcome Assessments

Director, Finance
\$94,600 to \$126,300

Manager, Leaders Opportunity Fund

Manager, Financial Monitoring

Senior Programs Officers

Senior Programs Planning Officer

Manager, Administration
\$86,000 to \$114,500

Senior Financial Monitoring Officer
\$77,500 to \$102,700



THE YEAR AHEAD

All CFI funding activities are designed to attract and retain top research talent, enable world-class research and technology development and help train the next generation of researchers and innovators. To achieve these goals, the CFI continues to be guided by the strategic directions that have been adopted by its Board of Directors.

In addition to the initiatives set out for 2013-14, and pending the finalization of a funding agreement with the Government of Canada for the \$500 million 2012 Federal Budget allocation, the CFI will launch research infrastructure competitions under the College-Industry Innovation Fund and the Leading Edge/New Initiatives funds.

STRATEGIC DIRECTIONS

1. Invest in the highest levels of excellence

Leaders Opportunity Fund (LOF)

The CFI will continue to receive and review LOF applications and will meet the research infrastructure needs of outstanding candidates recommended by their institutions. The LOF seeks to meet the research infrastructure needs of a specific research or small group of researchers through four funding streams:

- 1/ a stand-alone stream where institutions submit applications directly to the CFI;
- 2/ a stream that operates in conjunction with the Canada Research Chairs Program;
- 3/ a stream that operates jointly with NSERC, CIHR and SSHRC to reduce applicant burden; and
- 4/ a stream for larger projects in the \$1 million to \$2 million range.

2. Sustain and enhance Canada's research capacity

Major Science Initiatives (MSI) Fund

Following CFI Board decisions on the four MSI applications in March 2012, the successful applicants will continue to secure partner funding and develop performance metrics.

Infrastructure Operating Fund (IOF)

In accordance with the two current funding agreements, the CFI will continue to provide support for the operating and maintenance costs of CFI-funded research infrastructure.

3. Forge productive partnerships

The CFI will continue to participate in the CIIF and APC programs in 2013-14 by receiving and reviewing proposals submitted for two competitions within the two streams of the CIIF. The CFI will also provide awards for the Digging into Data Challenge and Discovery Frontiers program in 2013-14.

4. Build global influence

In September 2013, the CFI will hold a symposium on fostering trans-Atlantic collaboration in the development and use of infrastructure for both arctic and marine research. The overall objective of this trilateral Canada-EU-U.S. symposium is to discuss and identify opportunities for collaboration in the development, management and use of this infrastructure to ensure that the best researchers have access to the tools, equipment and facilities necessary for world-class research in arctic and marine studies.

5. Establish a trusted voice in public discourse

A communications audit conducted last year confirmed the direction CFI communications has been taking and will continue to take in 2013-14. While the CFI will continue covering the discovery research enabled by CFI-funded infrastructure, it will also continue to focus on the outcomes of these investments. The CFI has made great strides in contributing to Canada's research ecosystem

and in telling the stories about the impact that research infrastructure investments are having in communities across the country. With improvements to its website, the CFI will continue to relay its stories through various media — written features, videos, images and blogs.

The CFI will also expand outreach to industry and the private sector by highlighting how the research capabilities of Canada's universities, colleges and research hospitals can help the private sector find solutions to its business challenges and improve its innovation performance. We will build content on Innovation.ca that will be useful to the private sector — a hub where companies can not only find information on CFI-funded infrastructure but also locate relevant expertise available at universities, colleges and research institutes across the country.

To open new avenues of communication and new lines of messaging, the CFI will also continue broadening its conversations with associations such as the Canadian Manufacturers & Exporters, ACCT (Alliance for Commercialization of Canadian Technologies) Canada and Sustainable Development Technology Canada.

In addition to promoting the research the CFI enables through regular media relations activities, the Foundation will also continue distributing *Innovation now* to parliamentarians and key decision-makers, enhancing the CFI's social media presence and remaining a strong voice in the national conversation on research and innovation.

6. Track impacts

Operational efficiency and impact

In 2013-14, the CFI will begin work on the upcoming Overall performance evaluation and audit (OPEA), including an evaluation design and estimated timeline. The exercise will ensure progress is assessed against objectives and will ascertain the extent to which the CFI has achieved results, maintained relevance and been effective in its program design and delivery. The current funding agreement with Industry Canada requires that the OPEA be completed by fall 2014.

The CFI will continue work on its balanced scorecard, and will incorporate feedback from senior management and the CFI Board of Directors to further develop indicators that meet their information needs. In 2013-14, one focus will be the development of a scorecard platform that allows quick and easy access to relevant data and information.

The CFI will undertake an informal environmental scan of science and technology infrastructure impact assessment approaches being used by international counterparts. This scan, together with past experience, will allow the CFI to appropriately refine its suite of tools for inclusion in an evaluation and outcome assessment strategy for the coming years. A strategy with a three- to five-year horizon will be developed to ensure that all projects and studies are undertaken in a way that maximizes their alignment with the Performance, evaluation, risk and audit framework (PERAF) and their value to the OPEA framework.

Project progress reports (PPR)

The CFI will continue to gather and analyze project reports on an annual basis. In 2013-14, the CFI will also develop a new summary analysis that looks at projects in their final year of reporting. In addition to the reports on research outcomes, the CFI will undertake a special project to better understand the usage rates of CFI-funded infrastructure. Current PPR data suggests optimized usage of infrastructure in about 80 percent of projects. The remaining 20 percent of projects are either overused or underused. The CFI will explore these issues in an effort to ensure optimal use of infrastructure.

Outcome measurement study (OMS)

The CFI will apply the lessons learned from the past OMS to develop an improved methodology. The proposed OMS will provide a national perspective, focus on the importance of institutional strategic research plans in developing research goals and capacity, and will be made public.

Platform outcome measurement study (POMS)

The knowledge gained from the initial POMS assessment of the Canadian Research Knowledge Network will inform similar studies. The CFI intends to undertake two additional studies to assess the merit of this approach to outcomes reporting. Two POMS will begin in 2013-14, one to be completed by the end of year and the other to be completed in early 2014-15. It is expected that these studies will help demonstrate the extent to which the CFI is achieving its mandate and objectives by funding large-scale facilities of national scope and significance. The POMS will also be used to build a body of knowledge about best practices and challenges facing these facilities.

Socioeconomic impact assessment (SEIA)

The CFI will continue to work with the CIHR on the communication and dissemination of the pilot SEIA in medical imaging and will explore further opportunities for collaboration with the granting councils.



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 statements of financial position as at March 31, 2013, March 31, 2012 and April 1, 2011 and the statements of operations and of cash flows for the years ended March 31, 2013 and 2012, 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 public sector accounting standards for government not-for-profit organizations, 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 opinions.

Opinions

In our opinion, the financial statements present fairly, in all material respects, the financial position of the CFI as at March 31, 2013, March 31, 2012 and April 1, 2011 and the results of its operations and its cash flows for the years ended March 31, 2013 and 2012 in accordance with Canadian public sector accounting standards for government not-for-profit organizations.

Deloitte LLP

*Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants*

June 18, 2013

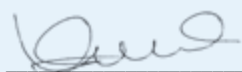
FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION

as at March 31, 2013, March 31, 2012 and April 1, 2011

	March 31, 2013	March 31, 2012 <i>(Note 2)</i>	April 1, 2011 <i>(Note 2)</i>
ASSETS			
Cash	\$ 453,652	\$ 5,107,811	\$ 11,369,617
Interest and other receivables	10,716,318	7,384,507	10,686,418
Investments <i>(Note 5)</i>	1,220,286,208	1,505,296,632	1,701,557,883
Prepaid expenses	241,598	234,252	250,249
Capital assets <i>(Note 6)</i>	4,160,674	3,687,107	2,536,735
	\$ 1,235,858,450	\$ 1,521,710,309	\$ 1,726,400,902
LIABILITIES AND NET ASSETS			
Accounts payable and accrued liabilities	\$ 796,853	\$ 1,508,431	\$ 1,592,790
Deferred lease inducement <i>(Note 7)</i>	107,627	139,915	-
European Research Area - Canada project deposits	21,462	21,468	22,812
	925,942	1,669,814	1,615,602
DEFERRED CONTRIBUTIONS <i>(Note 8)</i>			
Expenses of future years	1,230,771,834	1,516,353,388	1,722,248,565
Capital assets	4,160,674	3,687,107	2,536,735
	1,234,932,508	1,520,040,495	1,724,785,300
COMMITMENTS <i>(Note 9)</i>			
NET ASSETS <i>(Note 10)</i>	-	-	-
	\$ 1,235,858,450	\$ 1,521,710,309	\$ 1,726,400,902

APPROVED BY THE BOARD



Director



Director

FINANCIAL STATEMENTS

STATEMENTS OF OPERATIONS

years ended March 31, 2013 and 2012

	2013	2012 <i>(Note 2)</i>
REVENUE <i>(Note 8)</i>		
Recognition of deferred contributions related to amounts granted to eligible recipients	\$ 549,812,706	\$ 427,219,788
Recognition of deferred contributions related to current year operations	12,308,401	13,505,426
Amortization of deferred contributions related to capital assets	644,115	607,141
	\$ 562,765,222	\$ 441,332,355
EXPENSES		
Grants to eligible recipients	\$ 549,812,706	\$ 427,219,788
General and administration	12,308,401	13,505,426
Amortization of capital assets	644,115	607,141
	562,765,222	441,332,355
EXCESS OF REVENUE OVER EXPENSES	\$ -	\$ -

FINANCIAL STATEMENTS

STATEMENTS OF CASH FLOW

years ended March 31, 2013 and 2012

	2013	2012 <i>(Note 2)</i>
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
Operating		
Excess of revenue over expenses	\$ -	\$ -
Items not affecting cash:		
Amortization of capital assets	644,115	607,141
Amortization of deferred contributions related to capital assets	(644,115)	(607,141)
Change in unrealized gain on investments	-	(9,695,590)
Net increase (decrease) in amortization of discount/premium on investments	10,509,604	(816,263)
Net decrease in deferred contributions related to expenses of future years	(534,581,554)	(382,895,177)
	(524,071,950)	(393,407,030)
Changes in non-cash operating working capital items <i>(Note 12)</i>	(4,083,029)	3,372,120
	(528,154,979)	(390,034,910)
Capital		
Purchase of capital assets	(1,117,682)	(1,757,513)
Increase in deferred contributions related to capital assets	1,117,682	1,757,513
	-	-
Investing		
Purchase of investments	(754,767,908)	(864,534,158)
Proceeds on disposal of investment	1,029,268,728	1,071,307,262
	274,500,820	\$ 206,773,104
FINANCING		
Grants received <i>(Note 8)</i>	249,000,000	177,000,000
NET CASH OUTFLOW	(4,654,159)	(6,261,806)
CASH, BEGINNING OF YEAR	5,107,811	11,369,617
CASH, END OF YEAR	\$ 453,652	\$ 5,107,811

NOTES TO THE FINANCIAL STATEMENTS

years ended March 31, 2013 and 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) l) of the Income Tax Act (Canada).

2. Adoption of a new accounting framework

On April 1, 2012, the CFI adopted Canadian public sector accounting standards for government not-for-profit organizations. In accordance with Section 2125 of the Public Sector Accounting Handbook, First-time adoption by government organizations, ("Section 2125"), the date of transition to the new standards is April 1, 2011 and the CFI has prepared and presented an opening statement of financial position at the date of transition to the new standards. This opening statement of financial position is the starting point for the CFI's accounting under the new standards. In its opening statement of financial position, under the recommendations of Section 2125, the CFI:

- a/ recognized all assets and liabilities whose recognition is required by the new standards;
- b/ did not recognize items as assets or liabilities if the new standards do not permit such recognition;
- c/ reclassified items that it recognized previously as one type of asset, liability or component of equity, but are recognized as a different type of asset, liability or component of equity under the new standards; and

- d/ applied the new standards in measuring all recognized assets and liabilities.

In accordance with the requirements of Section 2125, the accounting policies set out in Note 3 have been consistently applied to all years presented (except for the new standards on financial instruments as disclosed in Note 3) and adjustments resulting from the adoption of the new standards have been applied retrospectively excluding cases where optional exemptions available under Section 2125 have been applied.

As at April 1, 2012, the fair value balance of investments became the opening cost which is now the carrying value for investments.

3. Significant accounting policies

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards for government not-for-profit organizations and include the following significant accounting policies:

Adoption of new accounting standard

As at April 1, 2012, the CFI adopted Public Sector Accounting (PSA) Handbook Section 3450, Financial Instruments. This new standard provides guidance for recognition, measurement and disclosure of financial instruments. The transitional provisions in the standard state that when a government organization applies this standard in the same year it adopts Public Service Accounting Standard (PSAS) for the first time, this standard cannot be applied retroactively. Comparative amounts are presented in accordance with the accounting policies applied by the government organization immediately preceding its adoption of PSAS. There is no impact of the adoption of this new standard to the comparative financial information.

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.

NOTES TO THE FINANCIAL STATEMENTS

years ended March 31, 2013 and 2012

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.

Investments

Investments are measured at amortized cost using the effective interest method of amortization. Purchases of investments are recorded on the settlement date.

Financial instruments

The CFI records interest and other receivable and accounts payable and accrued liabilities at amortized cost using the effective interest method of amortization. Cash is measured at fair value.

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 Awards Management System are capitalized and amortized when the new functionalities become operational. Development costs are comprised mainly of professional services.

Use of estimates

The preparation of these financial statements requires CFI's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in the periods in which they become known. The most significant estimates used in preparing these financial statements include assumptions used in determining the collectibility of accounts receivable, the estimated useful lives of capital assets and the amount of accrued liabilities.

NOTES TO THE FINANCIAL STATEMENTS

years ended March 31, 2013 and 2012

4. 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, 2013, the CFI has met its objective of having sufficient liquid resources to meet its current obligations.

5. Investments

Investments comprise the following financial instruments:

	March 31, 2013		March 31, 2012		April 1, 2011	
	Fair Value	Cost and Carrying Value	Fair Value and Carrying Value	Cost	Fair Value and Carrying Value	Cost
Money market funds	\$ -	\$ -	\$ 89,138,632	\$ 89,137,906	\$ 83,760,121	\$ 83,758,320
Bonds	701,439,280	690,019,942	724,288,768	716,891,127	933,315,292	932,923,596
NHA mortgage-backed securities	534,444,905	530,266,266	691,869,232	683,147,354	683,612,297	677,532,258
Amortizing bonds	-	-	-	-	870,173	919,054
	\$ 1,235,884,185	\$ 1,220,286,208	\$ 1,505,296,632	\$ 1,489,176,387	\$ 1,701,557,883	\$ 1,695,133,228

Fair value hierarchy

Financial instruments are grouped into Levels 1 to 3 based on the degree to which fair value is observable:

- **Level 1** fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- **Level 2** fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- **Level 3** fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

NOTES TO THE FINANCIAL STATEMENTS

years ended March 31, 2013 and 2012

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of hierarchy for which a significant input has been considered in measuring fair value.

The financial instrument recorded on the statement of financial position at fair value is composed of cash and is listed as Level 1.

Market risk

Interest rate risk

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

At March 31, 2013, if the interest rates in bonds had a 1% increase or decrease with all other variable held constant, the increase or decrease in the interest earned would have been a total of \$7,494,600.

The increase or decrease in the interest rate was not calculated for mortgage back securities.

Price risk

Price risk is the risk that the fair value of a financial instrument 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 financial instrument or its issuer, or factors affecting all similar securities traded in the market.

As at March 31, 2013, a 2% increase in market price would result in an increase of the fair value for investments of approximately \$23,909,000.

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 5.04% (2012 - 2.00% to 6.05%; 2011 - 2.02% to 6.40%). The rates for mortgage-backed securities range from 1.69% to 4.85% (2012 - 2.00% to 5.85%; 2011 - 2.15% to 6.15%).

Currency risk

Currency risk is the risk that the fair value of a financial instrument will fluctuate because of changes in foreign exchange rates. The CFI is not exposed to currency fluctuations.

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.

Bond maturities range between April 2013 and March 2017. The maturities of mortgage-backed security range between May 2013 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.

NOTES TO THE FINANCIAL STATEMENTS

years ended March 31, 2013 and 2012

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% (2012 - 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.

6. Capital assets

Capital assets consist of the following:

	March 31, 2013			March 31, 2012 <i>(note 2)</i>	April 1, 2011 <i>(note 2)</i>
	Cost	Accumulated Amortization	Net Book Value	Net Book Value	Net Book Value
Leasehold improvements	\$ 2,625,744	\$ 2,489,448	\$ 136,296	\$ 173,712	\$ 132,432
Furniture and other equipment	874,375	788,053	86,322	128,204	82,137
Computers and software	1,436,651	1,246,832	189,819	208,830	272,475
Award management system	4,499,784	751,547	3,748,237	3,176,361	2,049,691
	\$ 9,436,554	\$ 5,275,880	\$ 4,160,674	\$ 3,687,107	\$ 2,536,735

As of March 31, 2012, the capital assets' cost and accumulated amortization were \$8,318,872 and \$4,631,765 respectively (April 1, 2011 - \$6,561,360 and \$4,024,625).

7. 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, 2013, the unamortized balance is \$107,627 (March 31, 2012 - \$139,915; April 1, 2011 - NIL).

8. Deferred contributions

The CFI currently operates under two active Funding Agreements with the Government of Canada. As at March 31, 2013, the Government of Canada had committed \$4.99 billion in grants to the CFI under these agreements, of which \$4.51 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 \$249 million (March 31, 2012 - \$177 million; April 1, 2011 - \$203 million) related to these agreements.

NOTES TO THE FINANCIAL STATEMENTS

years ended March 31, 2013 and 2012

In budget 2012, the Government of Canada has proposed an additional \$500 million in funds to the CFI over five years, starting in 2014-2015, to support the Foundation's core activities. The Funding Agreement has yet to be put in place for this amount as of March 31, 2013.

The Economic Action Plan 2013 announced that \$225 million of unallocated interest income of the CFI will be committed to advanced research infrastructure priorities and sustaining the long-term operations of the Foundation. This funding is sourced from interest income accrued with respect to funding the CFI previously received from the Government of Canada.

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.

	March 31, 2013	March 31, 2012 <i>(note 2)</i>	April 1, 2011 <i>(note 2)</i>
Balance, beginning of year	\$ 1,516,353,388	\$ 1,722,248,565	\$ 1,943,478,624
Add grants received	249,000,000	177,000,000	203,000,000
Add restricted Investment revenue earned	28,657,235	59,587,550	49,517,204
Less amount recognized as revenue	(562,121,107)	(440,725,214)	(472,093,678)
Less amount applied toward capital assets acquired	(1,117,682)	(1,757,513)	(1,653,585)
Balance, end of year	\$ 1,230,771,834	\$ 1,516,353,388	\$ 1,722,248,565

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.

	March 31, 2013	March 31, 2012 <i>(note 2)</i>	April 1, 2011 <i>(note 2)</i>
Balance, beginning of year	\$ 3,687,107	\$ 2,536,735	\$ 1,413,487
Restricted grants applied toward the purchase of capital assets	1,117,682	1,757,513	1,653,585
Less amount amortized to revenue	(644,115)	(607,141)	(530,337)
Balance, end of year	\$ 4,160,674	\$ 3,687,107	\$ 2,536,735

NOTES TO THE FINANCIAL STATEMENTS

years ended March 31, 2013 and 2012

9. Commitments

During the year, the CFI awarded grants for a maximum amount of \$308.6 million (2012 - \$311.4 million). Total disbursements to eligible recipients during the fiscal year were \$549.8 million (2012 - \$427.2 million). To date, the CFI has awarded grants for a maximum amount of \$6,033.8 million, of which \$4,763.1 million had been disbursed as at March 31, 2013. The maximum grants awarded to date include \$52.0 million (2012 - \$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, 2013. 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. 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.

11. 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, 2013 amounted to \$629,872 (2012 - \$640,506).

12. Changes in non-cash operating working capital items

	2013	2012
Interest and other receivables	\$ (3,331,811)	\$ 3,301,911
Prepaid expenses	(7,346)	15,997
Accounts payable and accrued liabilities	(711,578)	(84,359)
Deferred lease inducement	(32,288)	139,915
European Research Area - Canada project deposits	(6)	(1,344)
	\$ (4,083,029)	\$ 3,372,120