The Canada Foundation for Innovation (CFI) is an independent corporation created by the Government of Canada to fund research infrastructure.

The CFI's mandate is to strengthen the capacity of Canadian universities, colleges, research hospitals and non-profit research institutions to carry out cutting-edge research and technology development that benefits Canadians.

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INNOVATION. MADE IN CANADA. BEST IN THE WORLD.

Since the CFI’s creation in 1997, its investments — $5.3 billion as at March 31, 2010 — have led to groundbreaking discoveries across the spectrum of disciplines. The CFI has supported 6,800 projects at 130 research institutions in 65 municipalities across the nation in areas such as health, natural resources and energy, information and communications technology, the environment and social science.

And in fiscal year 2009-10, an independent panel of seven internationally renowned experts in research and research funding reviewed a third-party Overall Performance Evaluation and Value-for-Money Audit (OPEA) of the CFI and concluded that the CFI is the most successful research funding organization of its kind in the world. The International Review Panel played an important role in ensuring a high-quality, credible process that would deliver valuable information for accountability and management decision-making purposes. The Panel was asked to formulate overall conclusions and recommendations regarding the performance of the CFI, using new and existing information and reports. Here is what else it said:

“Uncompromising commitment to excellence”
Canada’s cutting-edge labs, equipment and facilities are attracting researchers from around the globe and keeping our homegrown talent right here at home. The CFI has been driven by a commitment to excellence, an emphasis on multidisciplinary collaborations and strategic thinking in funding this infrastructure. And, in doing so, it has played a catalytic role in revitalizing and transforming the research enterprise in Canada and making it world-class.

“World’s best practice”
When it comes to designing and delivering programs that make the best use of public funds, the CFI’s foundation model allows the autonomy and flexibility it needs to promote excellence through rigorous funding competitions. The Government of Canada’s continued support for this model has allowed the CFI to adjust its programs to meet Canada’s research-infrastructure needs while safeguarding the public interest. The CFI’s programs and processes involve world’s best practices that are worthy of emulation.

“Strong advantage for Canada”
There was a time when Canada’s research reputation on the international stage was slipping, partially due to deteriorating infrastructure in our universities. The creation of the CFI, however, was a turning point. For more than a decade, the CFI has been a key player in rebuilding Canada’s status as a destination of choice for research talent and collaboration. In today’s global knowledge-based economy, where research is increasingly tied to a country’s economic prosperity, the CFI’s creation and achievements are relevant to Canada’s needs and national interests.

Throughout this annual report, you will find additional compelling comments on the CFI by the International Review Panel and KPMG, the third-party consultants and auditors that conducted the OPEA.
CFI OVERVIEW

Infrastructure enables cutting-edge research

The infrastructure funded by the CFI includes the state-of-the-art equipment, laboratories, databases and buildings necessary to conduct research. The CFI fosters collaboration among the academic, private, public and non-profit sectors on a range of projects and in all disciplines.

Infrastructure builds long-term capacity for research leading to benefits to Canada — and, ultimately, to the Canadian public.

Supporting national objectives

CFI funding enables institutions to set their research priorities in areas of importance to Canada. This helps researchers compete with the best in the world in an era when innovation and ingenuity are more important than ever for building a strong economy. The CFI contributes to:

• supporting economic growth and job creation, as well as health and environmental quality through innovation;
• increasing Canada’s capability to carry out important world-class scientific research and technology development;
• expanding research and job opportunities for young Canadians;
• promoting productive networks and collaboration among Canadian post-secondary educational institutions, research hospitals and the private sector.

The foundation: a model of success

Foundations are an important and effective instrument for the Government of Canada in the delivery of research programs, where expert knowledge, partnerships, multi-year funding, long-term planning and independent merit review are critical.

The arm’s-length nature of the foundation model allows organizations such as the CFI to address challenges in a highly effective, non-partisan manner. By working with institutions, the CFI ensures that applications for funding are based on solid institutional strategic research plans.

Although the CFI is not alone in supporting innovation in Canada, it is the only national organization focused on providing the infrastructure required to conduct high-quality research in all fields of investigation.

Funding formula

The CFI funds up to 40 percent of a project’s research infrastructure costs, which is then leveraged to attract the remaining investment from partners in the public, private and non-profit sectors. Its multi-year funding programs allow institutions to engage in long-term strategic research planning.

Institutions have harnessed the collective power of integrated suites of state-of-the-art equipment to maximize accessibility, multidisciplinarity and multi-sectoral effects. This collective power is greatly strengthened when institutions deliberately and explicitly address this strength in their strategic research plans and facility designs and organize their research, training and innovation programs around it.

Overall Performance Evaluation, KPMG

The foundation model has been crucial to the CFI’s impressive record of success.

International Review Panel Report

“"
Assessment criteria

Eligible Canadian institutions may apply to the CFI through a suite of funds. All applications are assessed using three broad criteria:

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

The CFI relies on experts from Canada and abroad in its rigorous and independent merit-review process, which ensures that only the very best projects are funded.

Fostering research that benefits Canadians

State-of-the-art infrastructure helps institutions attract, retain and train highly skilled research personnel. The CFI promotes the optimal use of research infrastructure within and among Canadian institutions to create the necessary conditions for sustainable, long-term economic growth. The innovative research that results from great minds and cutting-edge infrastructure can lead to better public policy and foster spin-off ventures and the commercialization of discoveries, which improve the overall quality of life for Canadians.

Guiding values and principles

The CFI strives to be an organization that is:

- **Transformative** — investing in projects that have a profound and enduring impact on the research environment.
- **Accountable** — monitoring impacts and keeping stakeholders informed, while ensuring funds are used responsibly.
- **Transparent** — ensuring the integrity of the review processes, as well as the fairness and independence of its funding decisions.

Consultative — maintaining an open dialogue with research institutions, their partners and other key stakeholders.

Client-focused — providing effective, efficient and innovative client services.

Flexible — adapting to changing environments and continually improving its policies, programs and services.

Innovative — bringing fresh ideas to program design and business practices and fostering a creative work environment.

The CFI has put in place practices and processes to help to ensure a consistent, merit-based and transparent review and approval of applications for funding.

We found that practices and processes are in place to help ensure that approved projects are consistent with the CFI’s objectives, are approved in a transparent manner and are monitored to help ensure that project funding is used for the acquisition and implementation of capital infrastructure.
MESSAGE FROM THE CHAIR

Innovation. Made in Canada. Best in the world. What exactly does this mean? For the Canada Foundation for Innovation (CFI), these words represent the culmination of years of dedication to ensuring that Canada's researchers are superbly equipped to innovate. They also represent the sentiments of an International Review Panel of renowned experts in research and research funding that recently reviewed an independent Value-for-Money Audit and Overall Performance Evaluation of the CFI.

The Panel not only suggested that the CFI's practices were world's best and worthy of emulation but also concluded that the CFI's commitment to excellence, its emphasis on multidisciplinary collaborations and its strategic thinking in funding research infrastructure have played a vital catalytic role in revitalizing and transforming Canada's research enterprise.

The CFI is proud of this accomplishment. And we share this pride with the universities, colleges, research hospitals and non-profit research institutes we fund. Their commitment to developing robust strategic plans that promote and facilitate world-class research is critical to the CFI's success. Together, we are changing lives and ensuring that Canada excels in the international research enterprise. Given that today, strong economies are built on innovation and ingenuity, these accomplishments — and the research and innovation they have fostered — should be a source of pride for all Canadians.

As an academic and an academic administrator, I had the good fortune to witness first-hand the transformational effect of the CFI on the achievements, confidence and international profile of Canada's researchers and on the country's ability to attract and retain top talent. And as Chair of the CFI Board of Directors, I had the privilege of coming to understand just how closely this transformational force is tied to the creativity and dedication of all involved in the CFI enterprise. An organization is only as strong as its people — they, too, are “world-class,” and the country owes them a great debt.

I am confident that the CFI will remain an essential transforming force — not only in Canada but also globally — well into the future.

William C. Leggett

The Panel is convinced that the CFI's foundational and catalytic roles have been instrumental in revitalizing and transforming university research in Canada and in growing its capacity for world-leading research.”

International Review Panel Report
MESSAGE FROM THE PRESIDENT AND CEO

Despite the recent challenges facing Canada’s economy, the 2009-10 fiscal year began on a positive note for the CFI, with its investment of $669 million in a major competition under the Leading Edge and New Initiatives funds. The resulting awards, which were based on a rigorous and highly competitive merit-review process, were approved by the Board in June 2009. They supported state-of-the-art research infrastructure for 133 projects at 41 Canadian research institutions across a spectrum of disciplines.

Budget 2009 provided the CFI with funding for one or more competitions to be launched before the end of 2010, based on a strategic plan and consultations with the Minister of Industry. In April 2009, the CFI began consulting with research institutions, industry, other funding organizations and federal and provincial governments to inform its strategic plan. The resulting plan allows the CFI to best address the opportunities and challenges of today’s rapidly evolving and competitive global research environment.

A major highlight of the year was completion of an Overall Performance Evaluation and Value-for-Money Audit (OPEA) of the CFI. The evaluation and audit were undertaken by an independent third party as part of the CFI’s Funding Agreement with the Government of Canada. Covering the CFI’s first 12 years of activity (1997-2009), the OPEA report notes that “the evaluation of the CFI and its impacts was overwhelmingly positive.”

The OPEA was accompanied by an independent assessment of the CFI by a distinguished International Review Panel. The Panel’s report, released in March 2010 with the OPEA report, concludes that “in relation to results, design and delivery [of programs] and relevance, the CFI’s record of achievement to date is outstanding.”

The findings of the OPEA and the Panel clearly reflect the benefits of the CFI’s core values, including its commitment to excellence, its focus on institutional strategic priorities, its promotion of multidisciplinarity and collaboration and its culture of transparency and accountability. The reports also validate the independent foundation status of the CFI and attest to the confidence placed in it by the Government of Canada, whose investments in Canada’s research infrastructure through the CFI now exceed $5.3 billion.

As this report is being written, I am preparing to step down as President and CEO of the CFI after a tenure of six years. It has been an enormous privilege for me to lead such an effective and respected organization. I have been fortunate to have served under two distinguished and supportive Board Chairs, Dr. John Evans and Dr. William Leggett, backed by a committed Board of Directors, and to have worked with a highly engaged and creative senior management team and staff. To all these individuals, I am most grateful.

I am confident that under the leadership of my successor, Dr. Gilles Patry, the CFI will continue to make an important contribution to Canada’s research and innovation enterprise and that he will lead the CFI to new heights.

Eliot A. Phillipson

“...The evaluation findings show that the quality and quantity of Canadian research are both up substantially in 2009 as compared with 1990.”

Overall Performance Evaluation, KPMG

Eliot A. Phillipson
1. Enhance Canada’s research capacity by promoting world-class excellence

Through its various research infrastructure funding programs, the CFI continued to enhance the nation’s research capacity by enabling Canadian institutions to remain competitive, positioning them to compete internationally and sustaining previous investments in research infrastructure. The results of the CFI’s investments in 2009-10 reflected the capacity and commitment of institutions across the country to make Canada one of the most innovative societies in the world.

**Leading Edge Fund (LEF) and New Initiatives Fund (NIF)**

The LEF and NIF support innovative and transformative infrastructure projects in all disciplines and research and technology development activities that lead to scientific breakthroughs which have social, economic and environmental benefits for Canadians.

**LEF/NIF in 2009-10**

- Projects funded: **133**
- Total investment: **$668 million**

The LEF builds on successful initiatives previously supported by the CFI and reinforces strategic planning and priority setting by Canadian institutions. The NIF supports new infrastructure initiatives in which the CFI has not previously invested and encourages creativity and dynamism in the Canadian research enterprise by enabling new ideas, unique teams and fresh approaches in promising areas of strategic importance.

In June 2009, the CFI Board of Directors approved an investment of $668 million in 133 infrastructure projects at 41 Canadian research institutions.

Factoring in the contributions of institutions and their partners, the competition generated an overall investment of $1.3 billion in research infrastructure across the country.

This LEF/NIF competition committed the $510 million allocated to the CFI by the Government of Canada in Budget 2007 and the $150 million allocated to the CFI in Budget 2009.
Committed to excellence: the CFI’s merit-review process

The 2009 LEF/NIF funding decisions were the result of a rigorous three-stage merit-review process:

1. **Expert committees:** In 2008, more than 100 expert committees reviewed proposals in their particular field, then forwarded their assessments to Multidisciplinary Assessment Committees.

2. **Multidisciplinary Assessment Committees (MAC):** In April 2009, 114 reviewers from Canada and abroad volunteered to serve on nine MACs, eight of which focused on research proposals and one on technology development proposals. The MACs considered the expert committee reports and focused on the projects’ potential benefits to Canada. They were also informed of provincial science and technology priorities.

3. **Special Multidisciplinary Assessment Committee (S-MAC):** In May 2009, a seven-member international S-MAC evaluated each proposal recommended for funding by the MACs and made final recommendations to the CFI Board of Directors. The S-MAC considered proposals that represented the most effective portfolio of investments in research infrastructure for Canada.

Leaders Opportunity Fund (LOF)

The LOF is a competitive allocation-based fund that assists Canadian universities in attracting and retaining outstanding faculty members and researchers in priority areas identified in an institution’s strategic research plan. Multi-year allocations to research institutions allow them to develop hiring and retention strategies. The CFI Board makes LOF funding decisions three times annually. In 2009-10, it committed approximately $83 million to 486 LOF projects to assist 59 universities in attracting and retaining more than 600 highly qualified researchers.

Serving the infrastructure needs of individual faculty or small groups of up to three faculty members, the LOF is delivered through three funding streams: stand-alone CFI support for leading researchers; funding related to the Canada Research Chairs Program; and in partnership with research-support proposals submitted to the Canadian Institutes of Health Research (CIHR), the Natural Sciences and Engineering Research Council (NSERC) and the Social Sciences and Humanities Research Council (SSHRC).
In 2008-09, the CFI reviewed the LOF’s effectiveness in responding to the changing requirements of Canada’s research community. And in 2009-10, the CFI implemented the resulting recommendations, including redistributing the allocation of funds among certain institutions and encouraging resource sharing among institutions to attract or retain leading researchers.

This year also marked the launch of the first LOF competition for projects between $1 million and $2 million. To ensure due diligence and appropriate evaluation of these large requests, the review process now includes expert reviews and a Multidisciplinary Assessment Committee. Twenty-eight applications were submitted in February 2010.

Infrastructure Operating Fund (IOF)

The IOF contributes to the incremental operating and maintenance costs of infrastructure projects funded by the CFI. Institutions can receive an IOF allocation of up to 30 percent of the CFI contribution to the capital costs of a project.

Committed and projected amounts ($M) 1998-2012

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* The maximum grants awarded to date include $17 million that will be unused by eligible recipients. This was confirmed by final financial reports submitted as at March 31, 2010.
Foster strategic partnerships to support Canada’s research enterprise

The CFI contributes a maximum of 40 percent to a project’s capital costs, which triggers recipient institutions to enter into collaborative funding partnerships with provincial and federal governments, non-profit institutions and the private sector. As a result, the CFI model has helped its clients leverage more than $6.2 billion from partners since the CFI was founded in 1997. In 2009-10 alone, partner funding amounted to approximately $900 million.

The CFI also encouraged strategic partnerships in the development of research proposals at Canadian institutions and among the country’s major research funders.

Encouraging regional and national collaboration

In the 2009 LEF/NIF competition, institutions were encouraged to collaborate regionally (with a minimum of four other nearby institutions) or nationally (with a minimum of nine other institutions from the four regions of the country). Approximately $150 million of the $668 million awarded in the 2009 competition went to regional and national infrastructure projects — a strong indication of the willingness of research institutions to partner.

Working with other research funders

The CFI continued to partner with the federal research funding agencies in providing $16.2 million for infrastructure support through the Leaders Opportunity Fund (LOF) in conjunction with the Canada Excellence Research Chairs Program, the Canadian Institutes of Health Research (CIHR) operating grants, the Natural Sciences and Engineering Research Council (NSERC) industrial research chairs and the Social Sciences and Humanities Research Council (SSHRC) standard research grants. The coordination of funding opportunities simplified application processes, improved research results, maximized the use of infrastructure and increased training of highly qualified personnel.

In addition, an existing memorandum of understanding with the SSHRC was expanded to allow for a partnership between the CFI’s LOF and the SSHRC’s major collaborative research initiatives program. The CFI expects to receive applications through this initiative in the fall of 2010 and is actively working with the research funding agencies to develop other partnerships.

April 2009 marked the launch of another collaborative initiative, Automotive Partnership Canada (APC), which aims to fuel made-in-Canada innovation, increasing the automotive industry’s ability to compete internationally and bringing long-term benefits to the Canadian automotive sector. The $145 million program will support significant, collaborative, industry-driven research and development to enhance Canada’s automotive research capacity. Over the next five years, the CFI will invest up to $15 million for research infrastructure with one or more of its funding partners — NSERC, the National Research Council (NRC), SSHRC and the Canada Excellence Research Chairs Program. Thus far, three projects have received approximately $3.9 million (cash and in kind) in funding, with more than $430,000 from the CFI.

“The CFI’s funding model has promoted cross-sectoral partnerships in the financing of research infrastructure projects.”

International Review Panel Report
The Canadian government, to its credit, created a model which has allowed the CFI a significant measure of autonomy and flexibility while ensuring appropriate due diligence and accountability for the use of public monies.

International Review Panel Report

The Panel is strongly of the view that the foundation model promotes efficient and effective use of funds because the CFI does not face pressures to spend all of its funds by fiscal year-end.

International Review Panel Report

3 **Enhance accountability to responsibly steward public funds**

The CFI continued to enhance its best practices in terms of accountability to the federal government and the Canadian public.

**Monitor projects and mitigate risk**

The CFI implemented new project management processes that will ensure better monitoring and oversight to mitigate the risks associated with large, complex CFI-funded projects. As part of the extensive post-award phase of the Large-Scale Institutional Endeavours component of the 2008-09 Research Hospital Fund competition, the CFI continued to ensure accountability with ongoing monitoring of project implementation. For infrastructure projects that involved complex construction and renovation, the CFI, together with research hospitals, used a set of key indicators to measure and improve the performance of governance structures, implementation plans, and budget and risk management practices.

**Improve services for stakeholders**

The CFI enhanced its database and web-based interface to improve services to the research community by providing better functionality and tools, as well as improved responsiveness.

After discussions with institutions, the CFI developed a tool that enables users to submit requests and track significant changes to a given project through their institutional web portal. The CFI can then assess these requests electronically. Once approved, they are automatically reflected in the CFI’s corporate database of projects. Since October 2009, institutions have been benefiting from this amendment tool by streamlining requests for changes, improving monitoring and facilitating financial reporting.

In the summer of 2009, the CFI began to upgrade the CFI Awards Management System (known as CAMS) to give it greater flexibility and improved service for the research community. During 2009-10, work focused on system architecture and database structure. New features and products are being phased in as they are developed.

**Assess impacts and disseminate results**

Analyzing and communicating the impacts of CFI-funded infrastructure are a key part of the CFI’s accountability to the Canadian public, the Government of Canada and others in the public and private sectors.

Using its Performance, Evaluation, Risk and Audit Framework, the CFI assessed the value and impact of investing in research infrastructure, demonstrating the effect that renewed research capacity is having on the performance of Canada’s research institutions and, most important, how it showed return on investment.
The CFI’s Funding Agreement with the Government of Canada requires that it carry out an Overall Performance Evaluation of its activities at least every five years. The agreement also required that it conduct a Value-for-Money Audit by March 31, 2010. Since the two requirements involve many of the same institutions and resources, they were conducted simultaneously. The evaluation focused on the achievement of the CFI measured against its national objectives and addressed global questions regarding results and program design, delivery and relevance. The audit examined the CFI’s management practices and processes to determine whether they are carried out efficiently, effectively and economically (see pages 14-15). An independent International Review Panel provided conclusions on the overall performance of the CFI. Its report was submitted, along with the evaluation and audit, to the Minister of Industry in March 2010 and made public.

The Outcome Measurement Study (OMS) is one of the CFI’s key tools for demonstrating how well it is meeting its four national objectives. Both qualitative and quantitative data are used to assess the impacts of CFI-funded projects in a thematic area at a particular institution. In 2009-10, the CFI evaluation team conducted OMS visits at six institutions in specific thematic areas: University of Regina (energy); University of Toronto (nanotechnology); Université de Montréal (cardiology); University of Ottawa (e-society); Queen’s University (geo-engineering); and University of Alberta (oil sands processing). The CFI was joined on these visits by observers from provincial governments and other research funding agencies.

As in previous years, the CFI analyzed the information contained in project progress reports from research institutions and posted the findings on the CFI’s corporate website. Improvements in data collection forms have enhanced the quality of the 2009 report on results.

The CFI conducted a number of special studies, including a review of its current guidelines for project progress reports. As a result of this study, new guidelines will be developed to enable the CFI to capture outcomes beyond the five-year reporting requirement without increasing the burden on respondents. This year, the CFI also analyzed the need for new and renewed CFI infrastructure as part of the Overall Performance Evaluation. The study examined the anticipated request for funding from the CFI over the next five years and found that the CFI could expect approximately $5 billion in infrastructure funding requests over that time period.

For large projects, including projects under the Research Hospital Fund, key project milestones are identified upon award finalization. These milestones are used to set operational monitoring schedules that include the conduct of meetings with the institution by Senior Programs Officers. These meetings help the CFI identify issues on a proactive basis as well as increase the CFI’s understanding and awareness of project progress.”

Value-for-Money Audit, KPMG
The CFI incorporated a number of risk-based activities to monitor projects. We confirm that the procedures and results of monitoring visits and audit activities are well documented and consistently performed. In addition, issues and areas of concern are followed up with the institution through the development and monitoring of action plans.

Value-for-Money Audit, KPMG

Report and monitor financial performance

The CFI invested its funds in accordance with its Investment Policy and Investment Strategy and is in full compliance with its Funding Agreement. The principal objective of investment decisions is the preservation of capital to meet future cash requirements. Consequently, a buy-and-hold strategy was used, in which investment maturities match the forecasted cash requirements of the CFI. Despite the ongoing credit crisis, the CFI not only preserved its capital but also continued to experience good returns on its investments.

The CFI Investment Policy and Investment Strategy were reviewed in November 2009 by the Investment Committee, which oversees the management and investment of CFI funds. Recognizing market volatility and uncertainty, the Committee had already approved a temporary approach to the day-to-day management of the funds in November 2008. Until market conditions improved, investments were restricted to the most secure types permitted under the Funding Agreement. This adjustment remained in force until March 2010, at which time the CFI reverted back to its normal full investment mandate, given the recovery in financial markets.

Monitoring visits and contribution audits are important activities that allow the CFI to mitigate its key risks. The CFI conducted 17 monitoring visits/preliminary meetings and 24 contribution audits in 2009-10. Monitoring visits and preliminary meetings are conducted at recipient institutions to assess the adequacy and effectiveness of policies, processes and controls that are in place for the management of CFI-funded projects. The CFI also conducts contribution audits of projects. It uses a risk-based approach to select the institutions that will be visited and the projects that will be subject to an audit. These activities help ensure that CFI funds are being used for their intended purpose, in accordance with the terms and conditions of award agreements and CFI policies and guidelines.

The CFI appointed KPMG as the new internal auditors for the year starting April 1, 2009. Toward the end of the 2009-10 fiscal year, KPMG began a System Under Development review, including IT security, that will be completed in the 2010-11 fiscal year.

Communicate with Canadians

The CFI used a variety of vehicles and strategies to communicate to the Canadian public the results and impacts of investments in research infrastructure.

InnovationCanada.ca, the online magazine of the CFI that showcases excellence in Canadian research, was relaunched in early 2010 with increased functionality, more intuitive navigation and optimized search engine and social media technologies. The site published 50 articles/videos in 2009-10, and approximately 500 readers from various sectors of the population visited the site every day.
We found that the CFI has communication plans and strategies to help secure sustained public and federal support for the CFI. The CFI recognizes that its success is measured by how effectively it communicates the value and impact of research to key stakeholders.

Value-for-Money Audit, KPMG

Some 30,000 copies of InnovatioNation (now called InnovationCanada), a biannual publication that highlights benefits of research to Canadians, were distributed to key stakeholders, including senators, MPs, CFI-funded institutions and media.

The CFI hosted more than 120 guests at its 12th Annual Public Meeting in Ottawa during National Science and Technology Week in October 2009. The meeting featured guest speaker A. Charles Baillie, Chair of Alberta Investment Management Corp., Chancellor Emeritus of Queen’s University and former CEO and Chair of TD Bank. He spoke about what drives Canada’s economy and what is needed to strengthen its global standing.

In addition to five national funding announcements, the CFI worked with funded institutions and other partners on 81 activities that showcased research and its impacts. Through national and regional media coverage (print, television and radio), more than 250 CFI-related news items reached approximately 13.6 million people.

Report to the Government of Canada

The CFI is accountable to its funder, the Government of Canada, in a number of ways. Fulfilling the requirements of its Funding Agreement, the CFI submitted its 2008-09 Annual Report to the Minister of Industry; it was tabled in the House of Commons on October 7, 2009. To save time and resources, the CFI electronically disseminated the report to more than 10,000 key stakeholders. In a further effort to reduce the CFI’s impact on the environment, only a small number of printed copies were distributed to the Government of Canada.

In October 2009, the CFI organized a special event on Parliament Hill — “Eye on Innovation” — which provided more than 150 federal MPs, senators and senior government officials with the opportunity to meet 15 of Canada’s top researchers and gain insight into the impact of Canada’s research successes.

As part of the pre-budget consultation process, the CFI submitted two briefs to the House of Commons Standing Committee on Industry, Science and Technology and the Standing Committee on Finance.

The CFI Board of Directors met in June 2009 in Toronto, in November 2009 in Halifax and in March 2010 in Saskatoon. The June meeting also included the annual meeting of CFI Members.
Summary findings from KPMG’s Overall Performance Evaluation and Value-for-Money Audit of the CFI

Overall Performance Evaluation

The findings point to the CFI’s strong impact on Canadian research infrastructure, which, in turn, has had a strong impact on research capability and productivity, training, attraction and retention and collaboration. Although many impacts on innovation remain in the future, there is good reason to believe that the institutions and researchers are putting significant effort into this area. The CFI has also led to considerably more and considerably stronger strategic research planning at the institutional level, as well as moderately more at the department and provincial levels, and this planning has been unexpectedly successful at leveraging research strengths. Together, these effects have led to a clear convergence of research capacity, the funding streams that support them and the research productivity that results.

To remain internationally competitive, the Canadian research community requires new and upgraded infrastructure — the study found that research infrastructure continues to play a large part in research productivity. Also, the CFI’s goals remain consistent with federal and provincial priorities.

The overall architecture of the CFI is sound, contains no major gaps and has a number of advantages compared with many other research infrastructure support programs worldwide. The individual funds are well designed and well delivered. No significant problems with the CFI or its impacts were identified.

In sum, the evaluation of the CFI and its impacts was overwhelmingly positive. Although some minor operational refinements are suggested, the CFI’s model and program delivery are both outstanding, and the CFI remains a critical foundation for Canadian research.

Value-for-Money Audit

Overall, we found that the CFI has designed and implemented practices and processes that promote economy and efficiency in the use of resources and that are effective in supporting the achievement of the CFI’s national objectives and expected results. The audit identified a number of noteworthy practices currently in place within the CFI, including the conduct of frequent process improvement reviews to continuously improve the efficiency and effectiveness of its operating policies and procedures; the use of multi-staged independent review committees to assess applications for funding on the basis of merit; the use of well-documented guidelines and tools to help promote transparency and consistency in the application, award and project monitoring processes; the use of formal risk assessment tools to guide the financial and operational monitoring of projects; the involvement of specialized skill sets throughout the project life cycle, including financial, program, communications and evaluation expertise; the active engagement of key stakeholders to identify and respond to needs within the CFI’s target audience; and the establishment of a
dedicated Evaluation and Outcome Assessment team with responsibility for gathering and analyzing performance information that is used to help communicate the outcomes and impacts of CFI funding to key stakeholders and the public at large.

Some minor areas for improvement were identified through the audit. In all cases, however, these areas relate to issues or challenges that had been previously identified by management and for which management has initiated actions to improve its processes and procedures.

Summary of the International Review Panel (IRP)

The IRP fully endorses the findings of the Overall Performance Evaluation and the Value-for-Money Audit in relation to the CFI’s performance to date. Based on its review of the results of these studies and on members’ knowledge of research funding arrangements in other countries, the IRP is unanimously of the view that in relation to results, design and delivery and relevance, the CFI’s record of achievement to date is outstanding. The CFI is widely admired internationally and, indeed, is a model that has been and will be emulated elsewhere.

It is the IRP’s assessment that the CFI has been very effective and, indeed, instrumental in growing Canada’s capacity for world-leading research, as well as in revitalizing Canadian university research. Through its insistence on institutional research plans, its skilful combination of “top-down” and “bottom-up” decision making and its commitment to excellence, it has had a transformational impact on research culture and aspirations. So, too, have the combined “facility effect” and “organization effect” of the CFI’s infrastructure investments in the context of institutional strategic research plans. The CFI has also demonstrated remarkable success in helping Canada to attract, retain and develop research talent.

In the IRP’s view, the CFI has made major contributions to increasing inter/multidisciplinarity and networking and collaboration among researchers, institutions and sectors, both domestically and internationally. The IRP is also of the view that the CFI has strengthened Canada’s innovation capacity most fundamentally through building university research capacity — as was intended — but it is also encouraging cross-sectoral research collaboration and knowledge transfer/translation. These efforts are already beginning to show very positive results, and more can be expected.

Finally, in the 12 years since its creation, the CFI has proven itself highly knowledgeable of and relevant to Canada’s needs and the demonstrated needs of the research community. It has responded effectively and efficiently to those needs, and in the view of the IRP, the CFI’s design and delivery processes are world’s best practice. In short, the IRP is unanimously agreed that through its first 12 years of existence, the CFI has been an impressive success. The IRP notes that the Canadian government has reinforced this success by periodically injecting additional funds.
Board of Directors

The CFI Board of Directors meets at least three times a year and until recently was composed of a maximum of 15 individuals from a variety of backgrounds. Each Director has a unique perspective and understanding of the research community and brings expertise from one or more of the private, institutional, academic, research or government sectors. The Government of Canada appoints seven Directors, one of whom is the Chair, while the remaining Directors are appointed by CFI Members. Directors are nominated and then appointed for three-year terms.

The federal government reviewed all Governor in Council (GIC) appointments in 2009. In its 2010 Budget, made public on March 4, 2010, the government announced a reduction of 245 GIC positions. As a result, the number of CFI Board Directors decreased from 15 (seven GIC-appointed; eight Member-appointed) to 13 (six GIC-appointed; seven Member-appointed).

In the context of that exercise and from a governance standpoint, the CFI management team and Board recommended that the number of CFI Members also be reduced to maintain a balance in numbers. Members approved a decrease from 15 to 13.

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:

- the appointment of up to eight of the 15 Board Directors (now seven of the 13);
- the appointment of external auditors;
- the review of audited financial statements;
- the approval of the Annual Report prior to its distribution at the Annual Public Meeting.

Co-chairs for Members are David Fung and Roland Hosein. Members Murray Knuttilla and Marie-Andrée Mallette participate in the nomination discussions and recommendations of Board Directors and Members at meetings of the Board’s Governance and Nominating Committee.
Through the CFI’s first 12 years of existence, its Board and management have demonstrated an unflagging commitment to excellence and to continuous improvement.

International Review Panel Report
ATTENDANCE

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

<table>
<thead>
<tr>
<th>Director</th>
<th>Board meetings</th>
<th>Committee meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sheila Brown</td>
<td>2/2</td>
<td>0/1</td>
</tr>
<tr>
<td>Elizabeth Cannon</td>
<td>3/3</td>
<td>4/5</td>
</tr>
<tr>
<td>Natalie Dakers</td>
<td>3/3</td>
<td>2/2</td>
</tr>
<tr>
<td>Suzanne Fortier</td>
<td>1/3</td>
<td>N/A</td>
</tr>
<tr>
<td>Albert Friesen</td>
<td>1/1</td>
<td>N/A</td>
</tr>
<tr>
<td>Robert J. Giroux</td>
<td>2/3</td>
<td>4/4</td>
</tr>
<tr>
<td>Liz Harrison</td>
<td>3/3</td>
<td>3/3</td>
</tr>
<tr>
<td>Linda Hohol</td>
<td>3/3</td>
<td>6/6</td>
</tr>
<tr>
<td>Louise Proulx</td>
<td>2/2</td>
<td>N/A</td>
</tr>
<tr>
<td>Ross McCurdy</td>
<td>3/3</td>
<td>6/6</td>
</tr>
<tr>
<td>Kevin P. D. Smith</td>
<td>2/3</td>
<td>1/3</td>
</tr>
<tr>
<td>John Weissenberger</td>
<td>2/3</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Left Board during year

<table>
<thead>
<tr>
<th>Director</th>
<th>Board meetings</th>
<th>Committee meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td>David Dolphin</td>
<td>1/1</td>
<td>1/1</td>
</tr>
<tr>
<td>Kevin O’Brien Fehr</td>
<td>1/1</td>
<td>1/1</td>
</tr>
<tr>
<td>Gary Glavin</td>
<td>2/2</td>
<td>2/2</td>
</tr>
<tr>
<td>William C. Leggett</td>
<td>2/2</td>
<td>6/6</td>
</tr>
</tbody>
</table>

Committees

Audit and Finance
- Ross McCurdy, Chair
- Natalie Dakers
- Linda Hohol
- Elizabeth Cannon
- Kevin P. D. Smith

Investment
- Linda Hohol, Chair
- Elizabeth Cannon
- Ross McCurdy

Governance and Nominating
- Robert J. Giroux, Chair
- Sheila Brown (since November 2009)
- Elizabeth Cannon
- Liz Harrison

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

Ranges of remuneration

BOARD DIRECTORS AND MEMBERS

To determine remuneration, the Board uses guidelines established by the Government of Canada: Remuneration Guidelines for Part-time Governor in Council Appointees in Crown Corporations. Directors who opt to receive remuneration from the CFI are entitled to an annual retainer of $5,000, while Committee Chairs receive $7,500 and the Board Chair receives $10,000. They 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 2009-10, the remuneration of Board Directors ranged from $0 to $21,250.

For the fiscal year ending March 31, 2010, compensation for CFI staff was within the following annual salary ranges:

CFI MANAGEMENT (OFFICERS)
- Eliot A. Phillipson, President and CEO: $194,000 to $245,000
- Suzanne Corbeil, Vice-President, External Relations and Communications (left in October 2009): $130,600 to $180,700
- Manon Harvey, Vice-President, Finance and Corporate Services: $130,600 to $180,700
- Jac van Beek, Vice-President, Programs and Planning (left in February 2010): $130,600 to $180,700

EMPLOYEES

(whose remuneration exceeds $100,000, including any fees, allowances or other benefits paid in year)
- Director, Programs: $103,400 to $140,700
- Director, Communications: $90,100 to $120,200
- Director, Corporate Services: $90,100 to $120,200
- Director, Evaluation and Outcome Assessment: $90,100 to $120,200
- Director, Finance: $90,100 to $120,200
- Senior Advisor, External Relations and Communications: $81,800 to $109,000
- Senior Programs Officers: $81,800 to $109,000
Cutting-edge science and technology development requires strategic thinking, effective policies and an environment that stimulates creativity and innovation. With the support of the Government of Canada, the CFI will continue to provide research infrastructure that is crucial to building world-class research and innovation capacity.

In 2010-11, the CFI will continue to deliver core programs aimed at attracting and retaining top research talent from around the world, positioning Canada at the forefront of scientific developments.

Objective 1: **Enhance Canada’s research capacity by promoting world-class excellence**

The CFI will develop and deliver funding programs associated with the $600 million from the Government of Canada’s Budget 2009.

The CFI will establish a new program ($185 million) for **Major Science Initiatives (MSI)**. Under this program, the CFI will design and implement a framework for predictable funding for supporting a portion of the operating costs of some of Canada’s MSIs, specifically those in which the CFI has made a significant capital investment. This is an important shift in science and technology policy that will allow the CFI to use its expertise to achieve objectives set out by the Government of Canada.

A new fund targeting **colleges** ($25 million) will also be developed, with one or more competitions to be launched by December 2010. The fund’s main objective will be to enable partnerships with the private sector to support business innovation.

The CFI will design a **Leading Edge Fund (LEF)** and **New Initiatives Fund (NIF)** competition ($155 million), to be launched in December 2011, that will focus on maintaining previous CFI investments at the leading edge and will encourage institutions to be even more strategic in planning and selecting projects they bring forward for funding.

The **Leaders Opportunity Fund (LOF)** will continue to be delivered in 2010-11 under the current program guidelines, with the CFI committing approximately $98 million to help universities attract and retain highly qualified researchers. There will be three rounds of the regular LOF and one round of the new LOF, which supports projects between $1 million and $2 million.

In 2010-11, the CFI will also provide approximately $29 million under the **Infrastructure Operating Fund (IOF)** to help support operations and maintenance for its funded infrastructure.

Working with the research community and other stakeholders, the CFI will continue to review its Policy and Program Guide to ensure that the provisions, policies and directions it contains are precise, comprehensive and clear. The upgrading of the CFI’s Awards Management System and related services will continue.

The CFI will also continue to examine its evaluation and review processes, ensuring that only the highest-quality proposals are selected for funding.
Objective 2: **Foster strategic partnerships to support Canada's research enterprise**

Automotive Partnership Canada (APC), jointly undertaken by the Natural Sciences and Engineering Research Council (NSERC), the Social Sciences and Humanities Research Council (SSHRC), the National Research Council (NRC), Industry Canada and the CFI, will continue to support transformative research undertakings that benefit the entire Canadian automotive industry.

Following established practice, the CFI will continue to consult stakeholders on the best approach to addressing research strengths and investing in areas of strategic priority. In addition, the CFI will explore possibilities for new funding partnerships with a variety of Canada's research support agencies.

Objective 3: **Enhance accountability to responsibly steward public funds**

To assess progress in 2010-11 and the achievement of the objectives set out in its strategic plan, the CFI will review the framework and modify the comprehensive evaluation and performance indicators that constitute its Performance, Evaluation, Risk and Audit Framework.

The CFI will undertake seven Outcome Measurement Study (OMS) visits. It will invite representatives from provincial governments and other funding agencies and will share the study methodology and activities with federal and provincial funding organizations through OMS assessments.

The CFI will undertake a socio-economic impact assessment to examine a range of impacts resulting from CFI-funded investments in research infrastructure. It will also conduct a special study on research collaborations to examine links between universities and private sector firms and assess collaborative outputs fostered by CFI investments.

The CFI will undertake monitoring visits and audits at funded institutions to verify that funds are being used appropriately and in compliance with agreements and CFI policies and guidelines. It will also submit its Annual Report of expenditures and achievements for 2010-11, as well as a Corporate Plan with its intentions and expectations for 2011-12. The CFI Board will meet at least three times during the next fiscal year to approve funding recommendations and provide strategic direction.

Finally, the CFI will employ a variety of communications vehicles in both official languages to disseminate messages about the impact of CFI investments, including the Annual Public Meeting, major funding announcements, the online magazine (InnovationCanada.ca) and hundreds of special events in collaboration with CFI-funded institutions.
Auditor’s Report

To the Members of
Canada Foundation for Innovation

We have audited the balance sheet of Canada Foundation for Innovation (the "CFI") as at March 31, 2010 and the statements of operations and of cash flows for the year then ended. These financial statements are the responsibility of the CFI'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 CFI as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants
Licensed Public Accountants

May 12, 2010
### ASSETS

<table>
<thead>
<tr>
<th>Item</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$26,118,420</td>
<td>$2,650,722</td>
</tr>
<tr>
<td>Interest and other receivables</td>
<td>11,886,608</td>
<td>20,000,786</td>
</tr>
<tr>
<td>Investments (Note 3)</td>
<td>1,905,958,014</td>
<td>2,128,587,259</td>
</tr>
<tr>
<td>Advance to European Research Area-Canada project</td>
<td>42,646</td>
<td>—</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>231,229</td>
<td>352,273</td>
</tr>
<tr>
<td>Capital assets (Note 4)</td>
<td>1,413,487</td>
<td>1,108,780</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$1,945,650,404</strong></td>
<td><strong>$2,152,699,820</strong></td>
</tr>
</tbody>
</table>

### LIABILITIES AND NET ASSETS

<table>
<thead>
<tr>
<th>Item</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>758,293</td>
<td>1,190,580</td>
</tr>
<tr>
<td>European Research Area-Canada project deposits</td>
<td>—</td>
<td>158,844</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>758,293</strong></td>
<td><strong>1,349,424</strong></td>
</tr>
</tbody>
</table>

### DEFERRED CONTRIBUTIONS (Note 5)

<table>
<thead>
<tr>
<th>Item</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenses of future years</td>
<td>1,943,478,624</td>
<td>2,150,241,616</td>
</tr>
<tr>
<td>Capital assets</td>
<td>1,413,487</td>
<td>1,108,780</td>
</tr>
<tr>
<td><strong>Total Deferred Contributions</strong></td>
<td><strong>1,944,892,111</strong></td>
<td><strong>2,151,350,396</strong></td>
</tr>
</tbody>
</table>

### COMMITMENTS (Note 7)

<table>
<thead>
<tr>
<th>Item</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Commitments</strong></td>
<td><strong>—</strong></td>
<td><strong>—</strong></td>
</tr>
</tbody>
</table>

### NET ASSETS (Note 6)

<table>
<thead>
<tr>
<th>Item</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$1,945,650,404</strong></td>
<td><strong>$2,152,699,820</strong></td>
</tr>
</tbody>
</table>

See accompanying notes

On behalf of the Board

William C. Leggett  
Chair, CFI Board of Directors

Ross McCurdy  
Chair, Audit and Finance Committee
## STATEMENT OF OPERATIONS

**year ended March 31, 2010**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUE (Note 5)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recognition of deferred contributions related to amounts granted to eligible recipients</td>
<td>$ 379,369,095</td>
<td>$ 372,219,250</td>
</tr>
<tr>
<td>Recognition of deferred contributions related to current year operations</td>
<td>12,571,160</td>
<td>12,577,170</td>
</tr>
<tr>
<td>Amortization of deferred contributions related to capital assets</td>
<td>469,819</td>
<td>453,627</td>
</tr>
<tr>
<td></td>
<td><strong>392,410,074</strong></td>
<td><strong>385,250,047</strong></td>
</tr>
<tr>
<td><strong>EXPENSES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants to eligible recipients</td>
<td>379,369,095</td>
<td>372,219,250</td>
</tr>
<tr>
<td>General and administration</td>
<td>12,571,160</td>
<td>12,577,170</td>
</tr>
<tr>
<td>Amortization of capital assets</td>
<td>469,819</td>
<td>453,627</td>
</tr>
<tr>
<td></td>
<td><strong>392,410,074</strong></td>
<td><strong>385,250,047</strong></td>
</tr>
<tr>
<td><strong>EXCESS OF REVENUE OVER EXPENSES</strong></td>
<td>$ —</td>
<td>$ —</td>
</tr>
</tbody>
</table>

*See accompanying notes*
## STATEMENT OF CASH FLOWS

**year ended March 31, 2010**

### NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:

<table>
<thead>
<tr>
<th>Activity</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OPERATING</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excess of revenue over expenses</td>
<td>$ —</td>
<td>$ —</td>
</tr>
<tr>
<td>Items not affecting cash:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Amortization of capital assets</td>
<td>469,819</td>
<td>453,627</td>
</tr>
<tr>
<td>• Amortization of deferred contributions related to capital assets</td>
<td>(469,819)</td>
<td>(453,627)</td>
</tr>
<tr>
<td>Change in unrealized gain on investments</td>
<td>24,093,734</td>
<td>(1,353,729)</td>
</tr>
<tr>
<td>Net increase (decrease) in amortization of discount/premium on investments</td>
<td>21,961,950</td>
<td>(2,792,586)</td>
</tr>
<tr>
<td>Net decrease in deferred contributions related to expenses of future years</td>
<td>(335,382,992)</td>
<td>(278,776,418)</td>
</tr>
<tr>
<td>Changes in non-cash operating working capital items</td>
<td>7,601,445</td>
<td>6,206,745</td>
</tr>
<tr>
<td></td>
<td>(281,705,883)</td>
<td>(276,715,988)</td>
</tr>
<tr>
<td><strong>INVESTING</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of capital assets</td>
<td>(774,526)</td>
<td>(226,400)</td>
</tr>
<tr>
<td>Increase in deferred contributions related to capital assets</td>
<td>774,526</td>
<td>226,400</td>
</tr>
<tr>
<td>Purchase of investments</td>
<td>(1,380,175,278)</td>
<td>(1,214,695,544)</td>
</tr>
<tr>
<td>Matured investments</td>
<td>1,556,748,839</td>
<td>1,387,903,271</td>
</tr>
<tr>
<td></td>
<td>176,573,561</td>
<td>173,207,727</td>
</tr>
<tr>
<td><strong>FINANCING</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants received (Note 2)</td>
<td>128,600,000</td>
<td>104,400,000</td>
</tr>
<tr>
<td><strong>NET CASH INFLOW</strong></td>
<td>23,467,698</td>
<td>891,739</td>
</tr>
<tr>
<td><strong>CASH, BEGINNING OF YEAR</strong></td>
<td>2,850,722</td>
<td>1,758,983</td>
</tr>
<tr>
<td><strong>CASH, END OF YEAR</strong></td>
<td>$ 26,118,420</td>
<td>$ 2,650,722</td>
</tr>
</tbody>
</table>

See accompanying notes
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 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.

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

Revenue recognition

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

Under the Budget Implementation Act, 1997, the CFI received $3.65 billion in grants until 2005 (plus accrued interest of $964,384 on the initial contribution) from the Government of Canada. The grants, which have been received and recorded in prior fiscal years, are to be held, invested, administered and disbursed in accordance with the Act and the related Funding Agreement between the CFI and the Government of Canada.

The Government of Canada provided an additional $80 million for the Leaders Opportunity Fund in Budget 2006 and announced an additional $510 million to enhance CFI support for eligible costs specified in the Funding Agreement in Budget 2007. These funds will be disbursed to the CFI based on its cash flow requirements and are subject to sufficient appropriation by Parliament in the given government fiscal year in which payments are to be made. During the fiscal year, the CFI received a total of $128.6 million, of which $26.6 million related to Budget 2006 and $102 million related to Budget 2007.

In Budget 2009, the Government of Canada announced an additional $750 million in funds for the CFI. Of this amount, $150 million was set aside to supplement the funding available for the 2009 Leading Edge and New Initiatives funds competition. It will be paid on demand by the CFI based on annual cash flow requirements, but will be conditional on specific related Parliamentary appropriation. The remaining $600 million is intended for the launch of one or more new competitions by December 2010 in support of science and technology priorities identified by the Minister of Industry in consultation with the CFI, and guided by the CFI’s strategic plan. This amount was pending final approval of an updated Funding Agreement as at March 31, 2010.

Grants received, together with future investment revenue, are directed to funding eligible recipients and paying the CFI’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 CFI.

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

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

Financial instruments

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

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

Interest and other receivables are included in the loans and receivables category, and accounts payable and accrued charges are included in the other financial liabilities category. Subsequent measurements are recorded at amortized cost using the effective interest rate method. These measurements generally correspond to cost.

The CFI has chosen to apply Section 3861 of the Canadian Institute of Chartered Accountants (CICA) Handbook, Financial Instruments — Disclosures and Presentation in place of Sections 3862, Financial Instruments — Disclosure and 3863, Financial Instruments — Presentation, of the CICA Handbook.

Investments

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

Capital assets

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

Capital assets are amortized on a straight-line basis using the following annual rates:

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

Use of estimates

The preparation of financial statements requires CFI’s management to make estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities in the financial statements and accompanying notes. These have been made using careful judgment. Actual results could differ from these estimates.
Changes in accounting policies

In September 2008, the CICA issued amendments to several existing sections in the 4400 series (Financial Statements by Not-For-Profit Organizations) which affected fiscal years beginning on or after January 1, 2009. Accordingly, the CFI adopted the amended standards for its fiscal year beginning April 1, 2009. The amendments include: a) additional guidance in the applicability of Section 1100, Generally Accepted Accounting Principles; b) removal of the requirement to separately report net assets invested in capital assets; c) requirement to disclose revenues and expenses in accordance with EIC 123, Reporting Revenue Gross as a Principal Versus Net as an Agent; d) requirement to include a statement of cash flows in accordance with Section 1540, Cash Flow Statements; e) requirement to apply Section 1751, Interim Financial Statements, when preparing interim financial statements in accordance with GAAP; f) requirement for not-for-profit organizations that recognize capital assets to depreciate and assess these capital assets for impairment in the same manner as other entities reporting on a GAAP basis; g) requirement to disclose related party transactions in accordance with Section 3840, Related Party Transactions; and h) new disclosure requirements regarding the allocation of fundraising and general support costs.

The CICA issued amendments to Section 1000, Financial Statement Concepts to clarify the criteria for recognizing an asset.

The adoption of these new standards did not have any significant impact on CFI’s financial statements.

3. INVESTMENTS

Investments comprise the following financial instruments:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fair value</td>
<td>Cost</td>
</tr>
<tr>
<td>Money market funds</td>
<td>$70,768,736</td>
<td>$70,770,591</td>
</tr>
<tr>
<td>Bonds</td>
<td>1,272,039,953</td>
<td>1,256,608,469</td>
</tr>
<tr>
<td>NHA mortgage-backed securities</td>
<td>560,548,616</td>
<td>552,675,416</td>
</tr>
<tr>
<td>Amortizing bonds</td>
<td>2,600,709</td>
<td>2,778,041</td>
</tr>
<tr>
<td></td>
<td>$1,905,958,014</td>
<td>$1,882,832,517</td>
</tr>
</tbody>
</table>
INTEREST RATE AND MARKET RISKS

Interest rate risk

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

Market risk

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

The CFI’s grant commitments do not exceed the total of its investments and interest that is expected to be earned. 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 3.65% to 11.50%. The rates for mortgage-backed securities range from 2.15% to 6.15% and for the amortizing bond is 7.56%.

LIQUIDITY RISK

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

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


CREDIT RISK

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

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

Capital assets consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cost</td>
<td>Accumulated amortization</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>$2,343,063</td>
<td>$1,910,112</td>
</tr>
<tr>
<td>Furniture and other equipment</td>
<td>743,948</td>
<td>663,612</td>
</tr>
<tr>
<td>Computers and software</td>
<td>1,820,763</td>
<td>920,563</td>
</tr>
<tr>
<td></td>
<td>$4,907,774</td>
<td>$3,494,287</td>
</tr>
</tbody>
</table>

5. DEFERRED CONTRIBUTIONS

Expenses of future years

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

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cost</td>
<td>Accumulated amortization</td>
</tr>
<tr>
<td>Balance, beginning of year</td>
<td>$2,150,241,616</td>
<td>$2,324,618,034</td>
</tr>
<tr>
<td>Add grants received (Note 2)</td>
<td>128,600,000</td>
<td>104,400,000</td>
</tr>
<tr>
<td>Add restricted investment revenue earned</td>
<td>57,351,789</td>
<td>106,246,402</td>
</tr>
<tr>
<td>Less amount recognized as revenue</td>
<td>(391,940,255)</td>
<td>(334,796,420)</td>
</tr>
<tr>
<td>Less amount applied toward capital assets acquired</td>
<td>(774,526)</td>
<td>(226,400)</td>
</tr>
<tr>
<td>Balance, end of year</td>
<td>$1,943,478,624</td>
<td>$2,150,241,616</td>
</tr>
</tbody>
</table>

Included in restricted investment revenue earned for 2010 is a reduction of $24,093,734 (2009 — an increase of $1,353,729) relating to unrealized gains recognized during the year. The balance of unrealized gain at year end is $23,125,497 (2009 — $47,219,231).
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.

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, beginning of year</td>
<td>$1,108,780</td>
<td>$1,336,007</td>
</tr>
<tr>
<td>Restricted grants applied toward the purchase of capital assets</td>
<td>774,526</td>
<td>226,400</td>
</tr>
<tr>
<td>Less amount amortized to revenue</td>
<td>(469,819)</td>
<td>(453,627)</td>
</tr>
<tr>
<td>Balance, end of year</td>
<td>$1,413,487</td>
<td>$1,108,780</td>
</tr>
</tbody>
</table>

6. RESTRICTED CONTRIBUTIONS AND NET ASSETS

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

7. COMMITMENTS

During the year, the CFI awarded grants for a maximum amount of $806.6 million (2009 — $663.8 million). Total disbursements to eligible recipients during the fiscal year were $379.4 million (2009 — $372.2 million). To date, the CFI has awarded grants for a maximum amount of $5,319.5 million, of which $3,325.9 million had been disbursed as at March 31, 2010. The maximum grants awarded to date include $17.0 million (2009 — $21.0 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, 2010. The balance of the awarded grants will be recorded as expenses in subsequent years as funds are disbursed.

The CFI entered into a lease agreement for its premises at 230 Queen Street (Ottawa, Ontario) for a 10-year period starting August 2001. The minimum annual lease payments related to these premises are approximately $1,225,000.

8. PENSION PLAN

The employees of the CFI may elect to become members of the Association of Universities and Colleges of Canada Pension Plan, a defined contribution plan managed by Sun Life Financial Inc. The employer contributions made to the Plan during the year ended March 31, 2010, amounted to $505,988 (2009 — $450,458).
9. CAPITAL MANAGEMENT

In managing capital, the CFI focuses on liquid resources available for operations and to be disbursed to eligible recipients. The CFI's objective is to have sufficient liquid resources to continue operating in accordance with the Funding Agreement 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, 2010, the CFI has met its objective of having sufficient liquid resources to meet its current obligations.

10. SUBSEQUENT EVENT

An updated Funding Agreement between the CFI and the Government of Canada is pending final approval. This agreement includes the $600 million allocated to the CFI in Budget 2009.

11. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year’s presentation. The financial statements as at March 31, 2009, and for the year then ended were audited by other auditors whose report, dated May 20, 2009, expressed an unqualified opinion on those statements.
The inside pages of this report were printed using socially and environmentally responsible practices.