



Canada Foundation for Innovation  
Fondation canadienne pour l'innovation



2003-04 ANNUAL REPORT  
CANADA FOUNDATION FOR INNOVATION

RESULTS }

03/04 =

**MISSION AND MANDATE** The Canada Foundation for Innovation (CFI) is an independent corporation created in 1997 by the Government of Canada to fund research infrastructure. The CFI's mandate is to strengthen the ability of Canadian universities, colleges, research hospitals, and non-profit research institutions to carry out world-class research and technology development that will benefit Canadians.



{ *Cover photo: Read about arctic research on page 10.*



Canada Foundation for Innovation  
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**MESSAGE FROM THE CHAIR** JUST IMAGINE THE POSSIBILITIES. IMAGINE DISCOVERING A VACCINE AGAINST HIV/AIDS. ENVISION DEVELOPING NEW TECHNOLOGIES TO FUEL THE INFORMATION REVOLUTION OR TO MITIGATE THE IMPACT OF GLOBAL WARMING. THINK OF UNCOVERING THE SECRETS THAT LIE AT THE BOTTOM OF THE OCEANS, OR HELPING TO DEVELOP PUBLIC HEALTH POLICIES THAT BENEFIT CANADIANS AND THE GLOBAL COMMUNITY. THESE ARE JUST A FEW OF THE THOUSANDS OF RESEARCH INITIATIVES THAT ARE CONTRIBUTING TO CANADA'S REPUTATION AS A RESEARCH DESTINATION OF CHOICE.



The creation of the Canada Foundation for Innovation (CFI) by the federal government in 1997 helped bring a radical transformation of our country's research landscape. In a few short years, new labs and state-of-the-art facilities appeared, institutions embraced innovative approaches to research planning, and collaboration and partnerships brought people together to address issues that cut across borders, disciplines, and sectors.

Fired up by these changes, institutions put forward bold and innovative proposals that are helping Canada become world-class in terms of R&D. This vitality was most recently reflected in the CFI's 2004 Innovation Fund competition, which resulted in a \$585.9 million CFI investment. Announced in March 2004 with the participation of the Prime Minister, The Right Honourable Paul Martin, and Industry Minister, The Honourable Lucienne Robillard, this investment will support leading-edge infrastructure projects in key research areas.

Our challenge to the research community is to think big in terms of potential benefits to Canada. Our goal is to mobilize people and institutions to think in new ways to create a strong and active research environment—an environment full of ideas with the physical infrastructure to bring these ideas to life. And in so doing, help to define a Canadian society where knowledge and quality of life are core values.

Over the years, the CFI has evolved to ensure that its programs meet the infrastructure needs of research institutions. It has also responded to emerging research opportunities, particularly at the international level. In the years ahead, the CFI and the research community will be faced with a new challenge—bringing together innovation and entrepreneurship to make sure Canadians reap the economic and social benefits of research. We will continue to be proactive in this regard—seeking input to ensure that our programs remain relevant and vibrant.

During this extraordinary period of transformation, the CFI benefited from the vision, energy, and experience of Dr. David W. Strangway, who stepped down as the CFI's President and CEO at the end of March 2004. I would like to take this opportunity to express our profound appreciation to Dr. Strangway for his commitment to the CFI and to Canada's research community.

On July 1, 2004, we welcomed Dr. Eliot A. Phillipson, the CFI's third President and CEO. His experience as a world-class clinical scientist, his management skills, and his personal integrity make him the ideal choice to lead the CFI in the years ahead.

Finally, my sincere thanks to our dedicated staff who work tirelessly to implement the CFI programs, and to the Directors and Members for their expertise and commitment to excellence.

A handwritten signature in blue ink that reads "John R. Evans". The signature is fluid and cursive, written on a light-colored background.

John R. Evans

**MESSAGE FROM THE PRESIDENT AND CEO** AS I STEP DOWN AS THE CFI'S PRESIDENT AND CEO, I AM PLEASED TO PRESENT YOU WITH THIS ANNUAL REPORT WHICH, I HOPE YOU WILL AGREE, BEARS WITNESS TO SOME OF THE GREAT ACHIEVEMENTS OF CANADA'S RESEARCH COMMUNITY IN RECENT YEARS.



Canadians have embraced the global knowledge-based economy with determination and confidence. This new attitude is, in part, the result of the cumulative impact of several initiatives in recent years that led to the revitalization of Canada's research and training environment.

The CFI strives to implement programs that target the needs identified by Canada's research institutions. This has fueled a transformation of Canada's research landscape and created a process driven by all stakeholders to advance Canada's innovation agenda. But it is also a process that needs to be sustained and for which research institutions, government, as well as the private and voluntary sectors share the responsibility.

Underpinning this transformation, I believe, are three key principles. Firstly, it is essential to empower people, institutions, and sectors to establish their own research priorities. Secondly, by decentralizing research to cities and communities, we increase the potential for benefits and commercialization. And thirdly, through a rigorous, nationally competitive process, we are enabling institutions to compete at the highest levels of excellence.

These principles are at the core of the CFI's mission to help create a thriving research and training environment across this country. By empowering the institutions and their partners to compete, the CFI is providing people and communities with opportunities to be part of the innovation process. And with programs aimed at supporting excellence, the CFI—along with the federal granting agencies, the Canada Research Chairs, and Genome Canada—is helping to strengthen the position of institutions across Canada in their quest to attract the best talent.

Combine that with a commitment to commercialize research, and what we see is the development of innovation clusters, leading to creative new partnerships with local communities. The overall result? Increased recognition of the role of universities and other research institutions as economic drivers, and a higher quality of life for the communities where they are located. We highlight some of these transformative impacts on Canadians throughout this Annual Report.

In closing, I would like to express my appreciation to Dr. John Evans, Board Directors, and Members for their confidence and constant support. I would also like to commend the researchers, institutions, and partners who, by rising to the challenge and embracing change, have been central to the success of the transformation of Canada's research landscape. And finally, I would like to express my sincere thanks to the thousands of volunteers and experts who are absolutely essential to the CFI's proposal-review process, and to the outstanding CFI team for their invaluable contribution.

My six years at the CFI have been immensely satisfying. I have been fortunate to be involved with an organization that is making an impact—helping to ensure a bright future for Canada's research community and for Canadians.

  
David W. Strangway

A photograph of a male scientist in a white lab coat and glasses, pushing a metal cart filled with various laboratory glassware and bottles. The setting is a modern, brightly lit laboratory with large windows in the background. The overall color palette is dominated by blues and whites, creating a clean and professional atmosphere.

## Transforming Canada's Research Landscape

To date, CFI investments of just over \$2.7 billion are having a significant impact on the capacity of the Canadian research community to compete internationally. State-of-the-art infrastructure is helping to:

- transform the way research is done;
- create a strong and vibrant research environment in Canada;
- attract and retain excellent researchers;
- enhance research productivity and the training of highly qualified people;
- build new national and international networks and partnerships.

The research enabled by this infrastructure is generating benefits for Canadians through the provision of better training environments; sound public policy leading to health, social, and environmental improvements; and the commercialization of discoveries including the creation of spin-off ventures.

**YEAR IN REVIEW** STATE-OF-THE-ART INFRASTRUCTURE EMPOWERS INSTITUTIONS AND THEIR RESEARCHERS TO COMPETE AND LEAD AT A TIME OF CRITICAL IMPORTANCE. TECHNOLOGICAL ADVANCES ARE MAKING RESEARCH TOOLS MORE POWERFUL, VERSATILE, AND ACCESSIBLE. NEW INFORMATION IS BEING SHARED ON A LARGER SCALE, ENABLING INNOVATIVE APPROACHES AND SOLUTIONS. RESEARCHERS ARE BECOMING MORE EFFECTIVE, MORE PRODUCTIVE, AND MORE COMPETITIVE. INSTITUTIONS ARE TAKING ADVANTAGE OF THE OPPORTUNITIES PROVIDED TO CREATE NEW RESEARCH PLATFORMS WITHIN AND BETWEEN INSTITUTIONS. AS A RESULT, CANADA IS GAINING AN ENVIABLE REPUTATION AS A GLOBAL RESEARCH LEADER.

## Innovation Fund

The year ended on a high note for Canada's research community with the announcement of an investment of \$450.7 million—supporting 126 infrastructure projects at 57 universities, colleges, research hospitals, and other non-profit research institutions. The Innovation Fund helps institutions strengthen their research and training environment in areas of priority that they themselves identify.

The 2004 Innovation Fund competition was specifically aimed at taking the research capacity of Canadian institutions to the next level by challenging them and their researchers to reach for new heights of excellence, improve their competitiveness, and attain international leadership for the benefit of all Canadians. Institutions were invited to submit proposals that:

- promote innovative research;
- capitalize on excellent research opportunities by drawing on local, national, and international intellectual capital;
- help attract and retain top-quality researchers and create a stimulating training environment;
- support the development of novel research instrumentation;
- create opportunities to fuel the development of clusters and the commercialization of research results;
- lead to public policies and improvements in society.

Following a call for proposals in October 2002, the CFI received over 900 Notices of Intent, representing a total request of \$2.6 billion. Over 500 applications requesting approximately \$1.5 billion were subsequently reviewed. The total budget was set at \$450 million, which resulted in a highly competitive process.



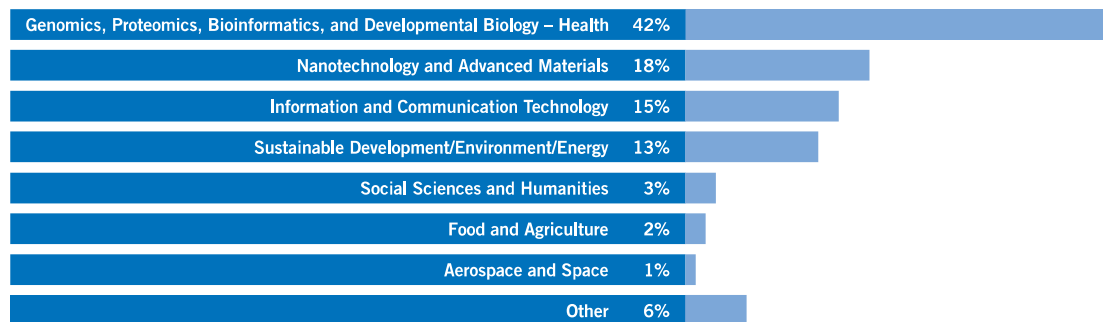
CFI infrastructure support has helped institutions bring a range of key partners to the funding table including municipal and provincial governments, as well as the private and voluntary sectors. This has led to funding from other sources, including international sources. By 2010, the CFI's investments of \$3.65 billion will have generated approximately an additional \$7 billion in research investments.

Successful projects under this Fund were selected following a rigorous evaluation process. Each proposal was assessed against the CFI criteria:

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

The projects were reviewed by 466 experts, the majority of whom were recruited internationally. Ten multidisciplinary committees selected 206 project proposals that met the criteria. These results were then forwarded to a special multidisciplinary committee to determine which of these projects best supported the CFI mandate and offered the best potential for social and economic benefits to Canada. The final decision for funding was made by the CFI Board of Directors in March 2004.

#### Innovation Fund—Distribution of Funding by Area of Research



### ☰ Pacific Jewel

In Nanaimo, the new Centre for Shellfish Research (CSR) is considered to be the jewel of Malaspina University College, contributing to B.C.'s \$30-million-a-year shellfish industry. Thanks to a \$1.5 million award from the CFI's **Innovation Fund**, the CSR houses a research laboratory and a holding area where researchers examine the science and technology needed to grow shellfish in an environmentally sustainable manner. "We've brought in more than \$5 million in total funding from a variety of sources," says Project Leader Bill Pennell. "We can begin a Masters program within two years and develop a fleet of courses that can be taken out to the communities themselves, including 39 First Nations communities."

In the short term, shellfish growers will benefit from technology transfer. In the long term, new species cultivated at the CSR will spur a significant economic boost in the local communities.

"The CFI is the spark that has brought this whole thing together," says Pennell.





## Infrastructure Operating Fund

Under the Infrastructure Operating Fund—created to assist institutions with the incremental and operating costs associated with the new infrastructure—the CFI invested \$135.2 million. The investment was announced along with the Innovation Fund in March 2004 to complement the awards made under the Innovation Fund.

In 2003-2004, the total combined investment under the Innovation Fund, including the associated Infrastructure Operating Fund, was \$585.9 million.

## Research Hospital Fund

To address today's and tomorrow's health challenges, support is needed for research that will lead to groundbreaking discoveries and knowledge that can be translated into improved health for Canadians, more effective health services and products, and a better health care system.

As part of the 2003 First Ministers' Accord on Health Care Renewal, the federal government has allocated \$500 million to the CFI to help address the need for further investment in research hospital infrastructure to take full advantage of state-of-the-art facilities, innovative ways to do research, and hospitals' increased research capacity.

The Research Hospital Fund has a strong focus on large-scale infrastructure projects that bring together biomedical, clinical, health services, and population health research. As in other funds, the CFI will provide up to 40 percent of the eligible costs.

The first competition under this Fund is aimed at building on or enhancing hospital infrastructure projects that were successful in the 2004 Innovation Fund competition. Research hospitals were invited to submit a project outline by August 2003, building on their proposal to the Innovation Fund. The CFI received 77 project outlines requesting a total of \$230 million. In March 2004, the CFI invited 19 projects to further develop their proposals and to submit them by May 31, 2004.



## New Opportunities Fund

The capacity of a country to innovate rests largely on the availability of highly qualified people. Since research is the foundation of innovation, it is critical that Canadian institutions are successful in attracting and retaining the very best talent. Recognizing that research is necessary for innovation, most developed countries have the same ambitions. As a result, the global competition for the best-qualified researchers is fierce. In this international race, the countries that succeed are those that are successful in creating the appropriate climate to allow creativity to flourish.

The New Opportunities Fund continues to play a crucial role in helping universities to develop and enhance their research and research training capacity, as well as their ability to transfer knowledge. This Fund provides infrastructure support to new faculty taking up their first full-time position at a Canadian university.

In 2003-2004, the CFI awarded \$74.9 million to 502 projects, supporting 593 new researchers at 56 universities. The CFI awarded an additional \$22.5 million under the Infrastructure Operating Fund to assist universities with the incremental operating and maintenance costs associated with this new infrastructure.

The impact of the New Opportunities Fund is substantiated in the project reports that are submitted each year by institutions and project leaders. The *2003 Analysis of Impacts of Funded Projects* makes a direct connection between the recruitment or attraction of several thousand researchers in the past year, and the availability of state-of-the-art research infrastructure. The full report is available on the CFI's website.

### New Opportunities Fund—Awards by Fiscal Year

1999-2000	153
2000-2001	230
2001-2002	223
2002-2003	312
2003-2004	502

### A Work of Art

When it comes to the conservation of priceless works of art, it takes a researcher with highly specialized knowledge and a keen eye. It also takes cutting-edge equipment. As the only person in Canada with such a specialized degree in art conservation, Dr. Alison Murray, Associate Professor of the Art Conservation Program at Queen's University in Kingston, Ontario, has just what it takes.

"Thanks to the CFI's **New Opportunities** award, I now have the tools required to investigate the use of safe cleaning treatments to preserve modern acrylic-based paintings," says Murray. "I wanted to make sure that the paintings we have from the 1950s onward can be shared with future generations." Because of the highly specialized equipment, one of Murray's science students will be able to complete her Master's degree at Queen's University rather than in the United Kingdom. As well, several international collaborations are underway with groups from England, Italy, and the United States.



## Assessing the Impact of Infrastructure

Independent evaluations conducted in recent years are showing the positive impact of infrastructure on the research capacity of institutions. The results are clear: CFI programs are helping to positively transform the country's research landscape in a number of ways:

- CFI programs have transformed the quality of infrastructure. Prior to a CFI award, more than half the infrastructure was rated “poor” or “fair,” and none was rated “world-class.” Following a CFI award, 90 percent of respondents rated it “excellent” or “world-class” in their discipline.
- Infrastructure is changing the nature of the research by promoting faster, more cutting-edge research, increased multidisciplinary, and substantially more collaboration, both nationally and internationally.
- CFI-enabled projects have contributed significantly to the creation of regional and national knowledge clusters.
- Faculty renewal is a significant issue facing Canadian institutions. The New Opportunities Fund has been a critical factor in attracting 2,200 high-calibre researchers to universities.
- Smaller institutions benefit from increased visibility and recognition, both at the national and international levels.
- State-of-the-art infrastructure is attracting thousands of researchers, postdoctoral fellows, and graduate students. It is also credited with advancing the training of over 6,000 undergraduate students.
- Infrastructure resources are being used to full capacity in the great majority of cases, ensuring the optimal use of research infrastructure within and among Canadian institutions.
- The presence of infrastructure helps institutions leverage additional funding and form partnerships between municipal and provincial governments, as well as with the private and voluntary sectors.



### *The CFI Effect* *Attracting and Retaining the Best*

More than ever, better research tools and techniques are opening up new horizons and opportunities. Institutions are competing to attract and retain researchers who are, in turn, setting Canada's research agenda. Thanks to the funding provided by the CFI, the Canada Research Chairs, and other initiatives to cover the indirect costs of research and graduate student support, Canadian institutions have been empowered to compete for the best talent in the world and to create clusters of innovation.

Annual progress reports submitted each year by the institutions indicate that CFI awards have an impact on thousands of individuals. In excess of 2,000 researchers—more than 40 percent of them from abroad—have been recruited, and an equal number has been retained at Canadian institutions. CFI support is also recognized as an important factor in the recruitment of approximately 3,000 postdoctoral fellows and 9,000 graduate students.

## International Funds

In the global race for knowledge, the CFI's International Funds enable Canadian institutions and their researchers to perform research at the highest international standards of excellence and to partner with some of the best from around the world. The CFI selected nine large-scale research infrastructure projects under its International Joint Ventures Fund and International Access Fund. These projects are aimed at furthering Canada's scientific position in areas such as marine and environmental sciences, infectious diseases, astronomy, light sources, and particle physics.

In 2003-2004, the funding for seven of these projects was announced, for a total of \$137.5 million.

### The Shipping News

The Canadian Coast Guard Ship Amundsen was launched in September 2003 on a six-month maiden research mission. It was retrofitted thanks to a \$27.6 million **International Fund** award to support the NSERC-funded CASES program—to explore climate change and ocean-floor mapping, among other things. “We take the pulse of each ecosystem, then compare this data to satellite information, as well as to that received from water instrumentation,” says Professor Louis Fortier of Laval University's Biology Department. “This research is helping us to develop adaptive strategies to minimize the negative impacts of arctic warming.” Fortier heads up an international team currently working on the Amundsen and credits the infrastructure for the amazing success of the first year's expedition. “The availability of the equipment on the Amundsen has led to invitations to work on other international research projects. This is an exceptional opportunity for Canada that we would not have had without the CFI.”



### *The CFI Effect* *Fostering Research Planning*

The CFI encourages each institution to have research plans and priorities in place. From these plans, funding proposals are developed that reinforce each institution's strengths. Institutions are also increasingly using their plans and priorities to leverage private-sector support, and to create or strengthen partnerships.

## Renewing Research Infrastructure

Research in the 21<sup>st</sup> Century is moving towards integration to solve society's most challenging and pressing problems. As technology advances at an unprecedented rate, today's tools become obsolete faster than ever before and the time frame for updating equipment is now significantly shorter. The CFI investment is helping address the ongoing need to keep Canada's researchers well equipped so they can achieve the breakthroughs that will benefit Canadians.

## Canada Research Chairs Infrastructure Fund

Massive faculty renewal, along with growing student demand, are projected to lead to the hiring of as many as 30,000 new researchers over a decade. Some universities have already replaced up to a third of their faculty in the last five years.

The Canada Research Chairs Program is establishing 2,000 Chair positions for prominent researchers at universities across the country. The CFI has partnered with the Program to provide Chairholders with the infrastructure they need to fully develop their research programs in a wide range of areas that contribute to enhancing our competitiveness, improving Canadians' health, and enriching our social and cultural life. Chairholders advance the frontiers of knowledge in their fields, not only through their own work, but also by teaching and supervising students and coordinating the work of other researchers.

In 2003-2004, the CFI awarded \$43.1 million to support 281 projects for 286 Chairholders at 49 institutions.

### Sowing the Seeds of Innovation

When you think of canola, sunflower, and linseed, the last thing you might think of is fuel. But Dr. Ajay Dalai—Canada Research Chair in Bio-Energy and Environmentally Friendly Chemical Processing at the University of Saskatchewan—is changing all that. Dalai is producing a lubricating fuel additive from these seed oils—converting waste biomass into energy. “The benefits of this research are enormous,” he says. “Not only are we creating a new, green energy source, but farmers will also be generating much-needed income from the low-grade seeds, and a local processing industry is being created in Saskatchewan.” And he's not stopping there. With an award from the CFI's **Canada Research Chairs Infrastructure Fund**, Dalai is also investigating ways to convert other types of waste biomass, including sawdust, bark, straw, and fryer grease, into energy and value-added bioproducts. He's one of only a few researchers in Canada with expertise in bioenergy and petroleum processing. With all this on the go, the future is not only bright, it's green.



**Committed and Projected Amounts (\$M) 1998-2010**

	1998-99	1999-00	2000-01	2001-02	2002-03
New Opportunities Fund	38	24	37	38	54
University Research Development Fund	19	10	3	2	1
Innovation Fund	143	225	356	594	–
College Research Development Fund	–	7	9	–	–
Canada Research Chairs Infrastructure Fund	–	–	5	54	35
International Funds	–	–	–	–	165
Career Awards	–	–	–	–	2
Research Hospital Fund	–	–	–	–	–
Exceptional Opportunities	–	–	–	–	–
Infrastructure Operating Fund	–	–	–	184	16
Unallocated Amounts					
<b>Total (\$M)</b>	<b>200</b>	<b>266</b>	<b>410</b>	<b>872</b>	<b>273</b>

**Career Awards**

In partnership with the Natural Sciences and Engineering Research Council (NSERC) and the Canadian Institutes of Health Research (CIHR), the CFI continues to recognize the achievements and exceptional contributions of Canada's top researchers.

In November 2003, the CFI announced an investment of almost \$1 million to provide five NSERC Steacie Fellows with the infrastructure required to carry out their research. The CFI also provided Career Award support to two recipients of the CIHR Distinguished Investigator Award, announced in March 2004.

Up to \$1 million is available for each of these programs. Awarded on a competitive basis, the CFI Career Awards acknowledge the important role that state-of-the-art equipment plays in enabling our top researchers to make discoveries in Canada.

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Total Per Fund (\$M)
	75	142		156				564
	–							35
	452							1,770
	–							16
	43	113		No additional funds				250
	–	35		No additional funds				200
	2	2						6
	–	100		400				500
	7							7
	158	42		No additional funds				400
				752				752
	737			1,742				4,500

## Exceptional Opportunities Awards

The nature of most infrastructure projects normally requires significant time from conceptualization to implementation. However, there may be some instances where an exceptional opportunity or critical partnership would be missed for Canada if a decision had to wait for the normal cycle of a competition. It is in this context that the CFI Board of Directors has identified the need for a rapid response mechanism that will further enable institutions and their partners to participate in unique opportunities for exceptional and innovative infrastructure projects.

The first project approved in 2003-2004 under this new mechanism was the Structural Genomics Consortium led by the University of Toronto, which was awarded \$7.2 million.



**“WE ARE COMMITTED TO ENSURING THAT  
STAKEHOLDERS FROM BOTH THE PUBLIC  
AND PRIVATE SECTORS ARE AWARE OF  
CFI INVESTMENTS, PROGRAMS, AND  
ACCOUNTABILITY MECHANISMS.”**



## REACHING OUT TO CANADIANS KEEPING CANADIANS INFORMED ABOUT THE IMPACT OF INVESTMENTS IN RESEARCH INFRASTRUCTURE CONTINUES TO BE A TOP CFI PRIORITY.

At the core of the CFI's strategy to report to the public is its web-based communications. Throughout the year, competition results are posted on its corporate website, along with program information and institutional reports on the use of CFI funds. The CFI Annual Report and other special publications are also posted, with thousands of downloads occurring via the website. A new multimedia section featuring short videos on CFI-supported international projects was also introduced last year. Over 336,000 visits to the site were recorded in 2003-2004. [www.innovation.ca](http://www.innovation.ca)



*In March 2004, CFI President and CEO Dr. David Strangway—with the participation of the Prime Minister, The Right Honourable Paul Martin; CFI Senior Vice-President Carmen Charette; Industry Minister, The Honourable Lucienne Robillard—announced the results of the Innovation Fund competition. Over 175 media personnel, researchers, and representatives from the research community took part in the event.*



*The CFI's annual public meeting—held in Ottawa on February 2, 2004, with over 150 people in attendance, the highest to date for a CFI public meeting—provided an opportunity to share with Canadians information about science and other innovative research. The event featured guest speaker Bob McDonald, host of CBC Radio's Quirks and Quarks.*

Since its launch in February 2002, the CFI's electronic web-based magazine—*InnovationCanada.ca*—has showcased the exciting stories and the talented people who are dreaming and working tirelessly to push the boundaries of knowledge. These stories help demonstrate the importance, benefits, and relevance of research that is made possible with CFI funding. In 2003-2004, traffic to the e-zine site doubled over the previous year—a clear indication of the public's desire to be informed on how research innovation is of benefit to them. [www.InnovationCanada.ca](http://www.InnovationCanada.ca)

Working with stakeholders, including the Minister of Industry and the granting agencies, we collaborated on almost 100 special events last year. Some were CFI-led to announce Board decisions and the results of funding competitions, some were led by other granting agencies, and others were led by the research institutions themselves to celebrate the milestones of their projects.

Reaching out through the media also helps us to keep Canadians informed. Increased emphasis on the regional impacts and benefits of the research resulted in broader visibility and increased understanding of innovative research from coast to coast.

We are committed to ensuring that stakeholders from both the public and private sectors are aware of CFI investments, programs, and accountability mechanisms. Ongoing outreach activities continue to demonstrate how the CFI is contributing to Canada's innovation agenda, while providing a forum to exchange information and hold consultations with the institutions' key funding partners.



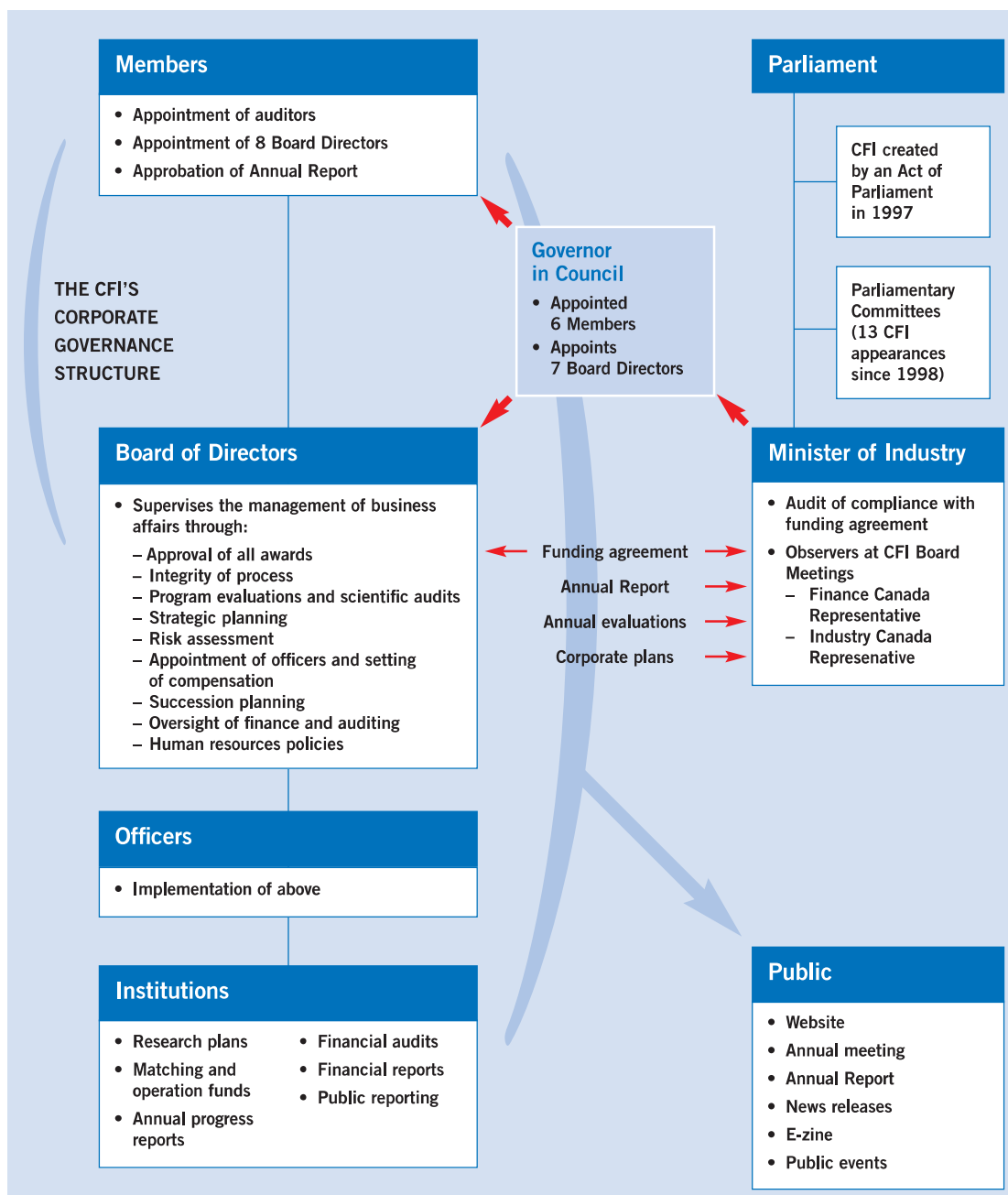
**“THE CFI PLACES A PARAMOUNT  
IMPORTANCE ON OPERATING  
IN AN ECONOMICAL, EFFECTIVE,  
AND TRANSPARENT MANNER.”**

## PRESERVING PUBLIC TRUST

### Accountability

Accountability is a fundamental CFI value. Because of its unique status as an independent organization entrusted with large amounts of public funds, the CFI places a paramount importance on operating in an economical, effective, and transparent manner, and on communicating its activities and results to a wide audience. The CFI also expects institutions to be accountable and to report publicly on results. The following chart illustrates the various mechanisms the CFI has in place to report to Canadians.

### Governance and Accountability Structure



## Governance

The CFI was established as an independent, non-governmental organization with a Board of Directors. The Board meets up to four times a year and each meeting ends with an in camera session. A public meeting is held each year and is widely publicized in several of Canada's leading newspapers.

Directors and Members are nominated, and then appointed for a three-year term for Directors, and for a five-year term for Members. To determine remuneration, the Board has chosen to use the guidelines established by the Government of Canada entitled, *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. They are also entitled to receive a per-meeting 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. However, they may be reimbursed for any reasonable out-of-pocket expenses they incur while performing their duties or attending CFI meetings.



### **The CFI Effect** **Enabling Community Development**

In the global knowledge-based economy, innovation clusters represent a key driver of development. Clusters bring together interdependent, innovative firms that are active in the same industrial sector. They build on local talent and expertise—including that of research institutions—to enable communities to compete globally. Understanding the success factors behind innovation clusters was the focus of an international conference in November 2003 organized by four Montreal universities and supported in part by the CFI. It brought together university and civic leaders who are working with other institutional leaders and industry executives. Representatives from more than 60 clusters in 18 countries attended the conference. The 2003 Clusters Conference report is available on the CFI website. The enthusiasm and momentum continue with Toulouse, France hosting the next international Clusters Conference in 2005.

## 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 responsible for the appointment of 8 of the 15 Board Directors. They receive audited financial statements, appoint auditors, and approve the Annual Report at their annual meeting.

### **Angus A. Bruneau\*\***

Chairman of the Board, Fortis Inc.;  
Chairman, Air Nova

### **Jim Friesen\*\***

Professor, Banting and Best Chair, Department  
of Medical Research, University of Toronto

### **Gail Gabel\***

President and CEO,  
E.S.I. Environmental Sensors Inc.

### **Robert J. Giroux\*\***

President and CEO, Association of Universities  
and Colleges of Canada

### **Jean-Paul Gourdeau\***

*(term began June 2003)*  
Past Chairman,  
École Polytechnique de Montréal

### **Arthur Hanson\*\***

Distinguished Fellow and Senior Scientist,  
International Institute for Sustainable  
Development

### **Monique Lefebvre\*\***

Corporate Director and Private Consultant

### **Judith Maxwell\*\***

President, Canadian Policy Research Networks

### **Peter J. Nicholson\*\***

*(term ended December 2003)*  
Special Advisor to the Secretary-General of  
the Organization for Economic Cooperation  
and Development; Director, Atlantic Institute  
for Market Studies

### **Edythe A. Parkinson-Marcoux\*\***

Consultant and Strategic Advisor,  
Ensyn Petroleum Inc.

### **Martha Piper\*\***

President and Vice-Chancellor,  
University of British Columbia

### **Donald Savoie\***

Clément-Cormier Chair in Economic  
Development, Université de Moncton

### **Matt Spence\*\***

President and CEO, Alberta Heritage Foundation  
for Medical Research

### **Ron Steer\*\***

Professor, Department of Chemistry,  
University of Saskatchewan

### **William Tholl\***

Secretary General and CEO,  
Canadian Medical Association

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\* Serving first five-year term.

\*\* Serving second five-year term.

## Board of Directors

The Board of Directors is made up of 15 individuals—7 of whom are appointed by the Government of Canada—from a variety of backgrounds. Each Director has a unique perspective and understanding of the research world, and brings expertise from the private, institutional, academic, research, and government sectors. One Director on the Board is a representative from one of the federal granting agencies, on a rotational basis.

The Board of Directors makes final decisions on projects to be funded and sets strategic objectives in the context of the funding agreement with the federal government. It approves annual plans and objectives, and reviews the outcomes of these objectives each year. It regularly reviews issues from a risk-assessment perspective—determining what risks are acceptable and ensuring that appropriate mitigation steps are in place. As well, the Board sets the CFI's overall compensation policy, and specifically sets compensation for management.

### **John R. Evans, Chair\*\*\***

Torstar Corporation

### **Michel Gervais, Vice-Chair\*\***

Director General,  
Centre Hospitalier Robert-Giffard

### **Lorne A. Babiuk\*\***

Director, Veterinary Infectious  
Disease Organization,  
University of Saskatchewan

### **Alan Bernstein\***

President,  
Canadian Institutes of Health Research

### **Aldée Cabana\***

Corporate Board Director;  
Former Rector, Université de Sherbrooke

### **Dian Cohen\*\***

President, DC Productions Limited

### **Bernard Coupal\*\***

President, Gestion T2C2/BIO Inc. and Gestion  
T2C2/INFO Inc. (Transfert Technologies  
Commercialisation Capital)

### **David Dolphin\***

Vice-President, Technology Development,  
QLT Inc.

### **Kevin O'Brien Fehr\***

Director, Basic Research and Genetics,  
GlaxoSmithKline Inc.

### **Monique Frize\*\***

Professor, NSERC/Nortel Joint Chair for  
Women in Science and Engineering in Ontario,  
Carleton University/University of Ottawa

### **Robert A. Phillips\*\***

Chief Executive Officer,  
Ontario Cancer Research Network

### **David Pink\*\***

Professor, Physics Department,  
St. Francis Xavier University

### **Gerri Sinclair\*\***

General Manager,  
Microsoft Canada's MSN.ca

### **Stella Thompson\*\***

Principal, Governance West Inc.

### **Ronald Whelan\***

Chairman, Archive Committee,  
Canadian Medical Association

\* Serving first three-year term.

\*\* Serving second three-year term.

\*\*\* Serving third three-year term.

**Audit and Finance Committee**

Lorne A. Babiuk, Chair  
 Aldée Cabana  
 John R. Evans  
 Kevin O'Brien Fehr  
 Robert A. Phillips

**Governance and Nominating Committee**

Dian Cohen, Chair  
 David Dolphin  
 John R. Evans  
 Michel Gervais  
 Gerri Sinclair  
 Stella Thompson

**Compensation of Management**

Compensation of CFI management for the fiscal year ending March 31, 2004, was within the annual salary ranges listed below. These ranges were approved following a 2001 benchmarking exercise by external consultants to ensure comparability with equivalent positions in similar organizations and in the federal public service. They have since been adjusted for cost-of-living increases.

The CFI has undertaken a comprehensive compensation review for the entire organization that will be completed in 2004-2005.

**Annual Salary Range**

<b>David W. Strangway</b> President & CEO .....	\$178,000 to \$220,000
<b>Carmen Charette</b> Senior Vice-President .....	\$127,000 to \$168,500
<b>Manon Harvey</b> Vice-President, Corporate Services .....	\$110,400 to \$141,000
<b>Suzanne Corbeil</b> Vice-President, External Relations .....	\$110,400 to \$141,000

***The CFI Effect******Strengthening Canada's Global Research Leadership Role***

Canada has taken steps to become a scientific leader among nations. It is increasingly seen as a destination of choice by the world's top researchers. Governments around the world are looking at the Canadian model to bolster their own research capability.

Researchers at universities and research institutions across the country are pushing the frontiers of knowledge and advancing our understanding of the world around us. Their contributions mean that cities such as Lethbridge, Chicoutimi, Saskatoon, and Truro have become global centres of scientific expertise—communities that are having a big impact in areas such as neuroscience, power transmission in northern climates, synchrotron technology, and agriculture. Other communities are also having a global impact, with cities such as Vancouver, Winnipeg, and Waterloo renowned for research into sustainable power generation, HIV/AIDS in Africa, and water quality.

A photograph of a person with short brown hair, wearing a green long-sleeved shirt and dark trousers, standing in a server room. The person is viewed from the side, looking into an open server rack. They are holding a blue server component, possibly a drive or a network card, and appear to be in the process of installing or removing it. The server rack is filled with multiple blue server units. The top of the rack contains a network switch labeled 'Catalyst 4000'. The server room has a blue perforated metal wall on the left and a light-colored floor. The overall scene is a professional data center environment.

**“ MORE AND MORE, INSTITUTIONS AND THEIR RESEARCHERS DEPEND ON STATE-OF-THE-ART INFRASTRUCTURE TO UNDERTAKE RESEARCH THAT ADDRESSES CANADIANS’ NEEDS AND PRIORITIES.”**



## LOOKING BACK AND AHEAD

### { Objectives and Results for 2003-2004

LAST YEAR'S KEY OBJECTIVES WERE AIMED AT FURTHER ENHANCING THE ABILITY OF RESEARCH INSTITUTIONS AND THEIR RESEARCHERS TO COMPETE AT THE FOREFRONT INTERNATIONALLY; TO UNDERTAKE RESEARCH THAT IS INCREASINGLY MULTIDISCIPLINARY, COLLABORATIVE, AND SOPHISTICATED; AND TO TRANSLATE THIS RESEARCH INTO BENEFITS TO CANADA.

#### OBJECTIVE { Reaching new heights of excellence and innovation

- RESULT** = Committed \$450.7 million under the 2004 Innovation Fund competition following a rigorous review process to support 126 leading-edge infrastructure projects in 57 research institutions. Almost 600 volunteers were recruited from Canada and abroad to assist in the merit review process.



#### OBJECTIVE { Attracting and retaining the very best

- RESULTS**
- = 593 new researchers in 502 projects received \$74.9 million to set up new facilities and equipment at 56 universities under the New Opportunities Fund.
  - = 286 Canada Research Chairs received \$43.1 million for state-of-the-art infrastructure.
  - = Under the Career Awards, \$1 million was awarded for five NSERC Steacie Fellows, and \$1 million was awarded for two CIHR Distinguished Investigators.



**OBJECTIVE** { **Strengthening infrastructure in research hospitals**

- RESULTS**
- = Designed and launched a call for proposals under the Research Hospital Fund.
  - = Selected 19 projects associated with successful Innovation Fund projects to proceed to a complete application to be reviewed by October 2004.

**OBJECTIVE** { **Maximizing the impact of infrastructure investments**

- RESULTS**
- = Invested \$158 million under the Infrastructure Operating Fund to assist institutions with the incremental operating and maintenance costs under the Innovation Fund and New Opportunities Fund.
  - = Ongoing dialogue with stakeholders to ensure funding needs are met for operating and maintenance costs.

**OBJECTIVE** { **Fostering excellence in management and operations**

- RESULTS**
- = Performed a third-party analysis of over 1,800 project and institutional reports.
  - = Conducted contribution audits of 13 projects (36 to date) and financial reviews at six institutions (15 to date).
  - = Based on a Request for Proposals, Members appointed Ernst & Young LLP as the CFI's external auditors. Further, the Board of Directors selected Deloitte & Touche LLP to perform the internal audit function, including the risk management re-assessment that was subsequently undertaken.
  - = An employee survey and a review of the pension benefits were conducted.
  - = Continuous improvements were made to our corporate and electronic magazine websites.
  - = 929 projects were finalized (detailed budget received, conditions met, partner funds confirmed, and disbursements of funds begun), and 401 were completed (total disbursements received by institution).

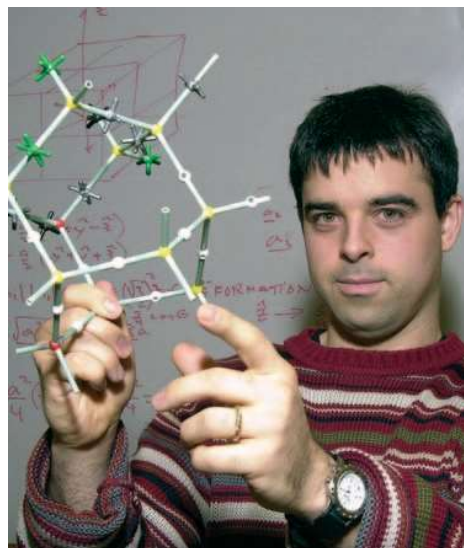


**OBJECTIVE** { **Sharing results with Canadians**

- RESULTS**
- = Worked with funded institutions to communicate results and impacts of CFI investments through collaborative activities such as 96 public announcements and four issues of CFI's web-based magazine, *InnovationCanada.ca*. A marked increase in media coverage, as well as traffic to the corporate and *InnovationCanada.ca* websites, were positive indicators of these efforts.
  - = Produced and disseminated reports based on institutional information, including the third-annual commercialization report.
  - = Outreach and accountability initiatives included: briefing of stakeholders in the public and private sectors, two appearances before a parliamentary committee, and one submission to a parliamentary committee.
  - = Formal evaluation and review of the CFI's communications practices.
  - = Produced and disseminated the 2002-2003 CFI Annual Report, both in print (over 2,600 copies) and electronically (over 3,000 downloads).
  - = Promoted dialogue between institutions and communities through the November 2003 Clusters Conference in Montreal.

**OBJECTIVE** { **Planning the future**

- RESULTS**
- = As part of ongoing strategic planning, the Board of Directors held a retreat to gain a better understanding of the evolving research and innovation environment, with particular focus on the international context. Issues examined included: evolving infrastructure needs; ongoing operations and maintenance costs; interactions with stakeholders (in particular, federal granting agencies and provinces); a mechanism for rapid response for exceptional opportunities; and greater accountability through assessing and communicating results.
  - = Ongoing dialogue with the research community on needs and changing environment.



## { At a Crossroads: Planning Objectives for 2004-2005

THE RESEARCH INFRASTRUCTURE LANDSCAPE IN CANADA IS NOW TOTALLY DIFFERENT THAN IT WAS IN 1997. AS WE MOVE FORWARD, WE REALIZE THAT THE NEED FOR INFRASTRUCTURE REMAINS HIGH BECAUSE OF THE RAPIDLY EVOLVING RESEARCH ENVIRONMENT AND EMERGING TECHNOLOGIES. MORE AND MORE, INSTITUTIONS AND THEIR RESEARCHERS DEPEND ON STATE-OF-THE-ART INFRASTRUCTURE TO UNDERTAKE RESEARCH THAT ADDRESSES CANADIANS' NEEDS AND PRIORITIES.

IN THE NEXT YEAR, THE CFI'S CHALLENGE WILL BE TO CONTINUE TO FIND WAYS TO BUILD ON THE MOMENTUM CREATED BY THE SIGNIFICANT INVESTMENTS ALREADY MADE. THE CFI WILL CONTINUE TO EXAMINE ITS ROLE TO FURTHER ENHANCE CANADA'S CAPACITY IN THE BROADER CONTEXT OF THE WHOLE RESEARCH ENTERPRISE, INCLUDING THE TRANSFER OF RESEARCH RESULTS. THIS YEAR'S OBJECTIVES ARE ALSO AIMED AT ENSURING THAT THE CFI CONTINUES TO BE A TRANSFORMATIVE, FLEXIBLE, CONSULTATIVE, AND SERVICE-ORIENTED ORGANIZATION, RESPONSIVE TO THE NEEDS OF THE RESEARCH COMMUNITY AND ACCOUNTABLE TO CANADIANS.

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### OBJECTIVE { Provide state-of-the-art infrastructure in a changing environment

- Engage various stakeholders in discussions on evolving research and technology developments, the identification of future infrastructure needs, as well as planning and priority setting.
- Define the best way to interpret and deliver our mandate beyond 2005.
- Design and prepare the launch of a call for proposals.
- Invest up to \$100 million in large-scale projects in research hospitals.
- Define our role and responsibilities in fostering international research activities.

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### OBJECTIVE { Enable research that benefits Canada

- Review the design of funding programs to maximize benefits to Canadians.
- Explore the potential role of the CFI in collaborating with others in the transfer of research results, particularly in activities related to commercialization.
- Collaborate with other research funding agencies to optimize the impact of research investments.

**OBJECTIVE { Attract and retain the very best**

- Review the need for additional investments under the New Opportunities Fund to attract first-time faculty in the context of ongoing massive faculty renewal at Canadian universities.
  - Assess the impact of infrastructure for the Canada Research Chairs, and the need to provide infrastructure support beyond that provided to the initial 2000 Chairs.
- 

**OBJECTIVE { Maximize infrastructure investment**

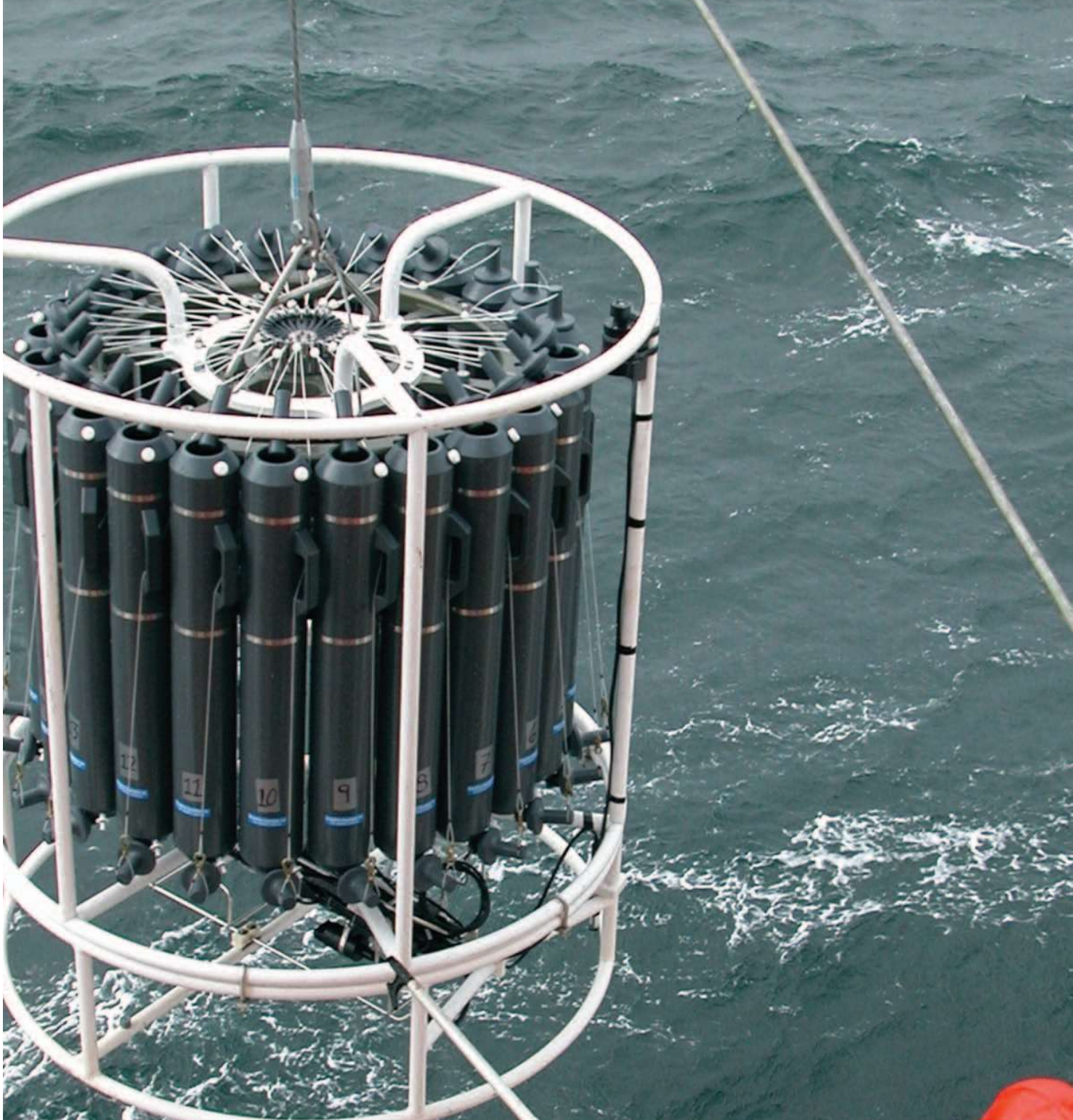
- Continue to interact with key stakeholders, including the granting agencies and provincial governments, to find efficient ways to support all aspects of research—in particular, the operating and maintenance costs of infrastructure.
  - Ensure that access to infrastructure fosters the attraction of highly qualified personnel and the transfer of research results.
  - Invest in the operating and maintenance costs for eligible projects.
- 

**OBJECTIVE { Share results with Canadians**

- Inform Canadians of the results and impacts of research infrastructure funding through increased collaboration with our stakeholders.
  - Continue to make all CFI information widely accessible through an improved corporate website and web-based magazine, as well as ongoing outreach initiatives.
  - Broaden our communications reach to all Canadians, particularly to students and teachers.
  - Expand outreach activities throughout Canada and across stakeholder groups.
- 

**OBJECTIVE { Promote accountability and corporate responsibility**

- Foster an environment of “excellence in service” to better serve our clients and volunteers.
- Review and analyze progress reports from institutions and on each project funded.
- Introduce scientific audits of previously funded projects.
- Review our approach to evaluation of outcomes and impacts.
- Review the composition of the Board of Directors and Members.
- Complete the compensation review for all CFI employees.
- Continue to manage in a financially responsible way.
- Improve productivity and service to our clientele through the use of technology.
- Create a challenging and rewarding environment for our employees.



**“THE CFI MAINTAINS PROPER FINANCIAL CONTROLS AND CONTINUES TO APPLY SOUND FINANCIAL MANAGEMENT TO ENSURE THE BEST USE OF PUBLIC FUNDS.”**



**FINANCIAL YEAR IN REVIEW** OPENNESS, TRANSPARENCY, AND ACCOUNTABILITY ARE CFI CORE VALUES. IN THE 2003-2004 FISCAL YEAR, THE CFI MAINTAINED PROPER FINANCIAL CONTROLS AND CONTINUED TO APPLY SOUND FINANCIAL MANAGEMENT TO ENSURE THE BEST USE OF PUBLIC FUNDS. EXTERNAL AUDITORS ISSUED AN UNQUALIFIED AUDIT OPINION ON THE CFI FINANCIAL STATEMENTS, WHICH APPEAR IN THE SUBSEQUENT PAGES OF THIS REPORT.

As of March 31, 2004, the CFI had received a total of \$3.65 billion from the Government of Canada. The following are highlights of the CFI's audited Financial Statements:

- The total investments (per the balance sheet) as of March 31, 2004, was \$3.075 billion.
- CFI investments are subject to strict guidelines. To ensure diversification, the funds have been placed in a variety of secure investment vehicles:
  - Money market funds                      \$160.7 million
  - Mortgage-backed securities            \$380.8 million
  - Bonds    \$2.386 billion
  - Amortizing bonds                        \$147.7 million
- The net change in the amount invested from the previous year is an increase of \$338 million. This is explained by the fact that the total disbursements to eligible recipients during the fiscal year were \$349.1 million, while interest earned in 2003-2004 amounted to \$180.3 million. New funds totaling \$500 million received from the Government of Canada, operating expenses, and the change in the interest receivable make up the remainder.
- Since 1997, the rate of return on the invested amount has averaged 5.83% per annum.
- Projects begin receiving funds only when all conditions are met and partner funds are confirmed. As of March 31, 2004, \$1.230 billion had been disbursed for infrastructure funding. This reflects the proportional share of the CFI contribution and the level of completion of the project (i.e., most construction projects span many months or years).
- To date, the CFI has awarded close to \$2.8 billion. Approximately \$1.7 billion remains to be committed until 2010 (with projected interest income factored in).



### **The CFI Effect** **From Research to Commercialization**

Researchers, institutions, and their partners have taken up the challenge of turning research into tangible economic benefits. This growing trend was confirmed in the CFI's *Summary of Institutional Activities of the Commercialization of Research*, published in 2003. The summary is based on a comprehensive analysis of data compiled by the Association of University Technology Managers (AUTM), and the annual reports from 87 CFI-supported institutions describing activities that supported commercialization in 2002. The summary shows that Canadian institutions are actively pursuing and developing these activities. It also underscores the increasing role of local communities in the commercialization of research, and highlights the establishment of incubators in all parts of the country.

## Responsibility for Financial Reporting

The financial statements of the Canada Foundation for Innovation (CFI) were prepared by CFI management, which is responsible for the integrity and fairness of the data presented. In certain cases, the data may include amounts that are based on best estimates and judgment. The financial statements were prepared in accordance with generally accepted accounting principles, including the accounting recommendations for non-profit organizations in Canada. Financial information appearing throughout this Annual Report is consistent with the financial statements.

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

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

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



Lorne A. Babiuk  
Chair,  
Audit and Finance Committee



Manon Harvey, CA  
Vice-President,  
Corporate Services



## FINANCIAL STATEMENTS

### Auditors' Report

To the Members of the  
**Canada Foundation for Innovation**

We have audited the balance sheet of the **Canada Foundation for Innovation** as at March 31, 2004 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The image shows a handwritten signature in blue ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

Ottawa, Canada  
May 14, 2004

Chartered Accountants

**BALANCE SHEET**

As at March 31

	2004 \$	2003 \$
<b>ASSETS</b>		
Cash	5,755,587	16,119,306
Interest and other receivables	40,477,885	45,982,410
Investments [note 3]	3,074,718,482	2,737,241,446
Prepaid expenses	188,550	47,352
Capital assets [note 4]	1,466,460	1,730,701
	<b>3,122,606,964</b>	<b>2,801,121,215</b>
<b>LIABILITIES AND NET ASSETS</b>		
Accounts payable and accrued charges	439,106	406,772
Deferred contributions: [note 5]		
Expenses of future periods	3,120,701,398	2,798,983,742
Capital assets	1,466,460	1,730,701
	<b>3,122,167,858</b>	<b>2,800,714,443</b>
Commitments [note 7]		
Net assets [note 6]	—	—
	<b>3,122,606,964</b>	<b>2,801,121,215</b>

*See accompanying notes***STATEMENT OF OPERATIONS**

Year ended March 31

	2004 \$	2003 \$
<b>REVENUES</b>		
Recognition of deferred contributions relating to amounts granted to eligible recipients	349,100,520	325,266,304
Recognition of deferred contributions relating to current year operations	9,450,021	6,828,256
Amortization of deferred contributions relating to capital assets	316,536	293,969
	<b>358,867,077</b>	<b>332,388,529</b>
<b>EXPENSES</b>		
Grants to eligible recipients	349,100,520	325,266,304
General and administration	9,450,021	6,828,256
Amortization of capital assets	316,536	293,969
	<b>358,867,077</b>	<b>332,388,529</b>
Excess of revenues over expenses	—	—

*See accompanying notes*

**STATEMENT OF CASH FLOWS**

Year ended March 31

	2004 \$	2003 \$
<b>OPERATING ACTIVITIES</b>		
Excess of revenues over expenses	—	—
Items not involving cash:		
Amortization of capital assets	316,536	293,969
Amortization of deferred contributions related to capital assets	(316,536)	(293,969)
Net increase (decrease) in deferred contributions related to expenses of future periods	321,717,656	(163,192,591)
Change in non-cash operating working capital	5,395,661	7,391,259
<b>Cash provided by (used in) operating activities</b>	<b>327,113,317</b>	<b>(155,801,332)</b>
<b>FINANCING AND INVESTING ACTIVITIES</b>		
Purchase of capital assets	(52,295)	(258,668)
Increase in deferred contributions related to capital assets	52,295	258,668
Net sale (purchase) of investments	(337,477,036)	159,179,864
<b>Cash provided by financing and investing activities</b>	<b>(337,477,036)</b>	<b>159,179,864</b>
Net (decrease) increase in cash	(10,363,719)	3,378,532
Cash, beginning of year	16,119,306	12,740,774
<b>Cash, end of year</b>	<b>5,755,587</b>	<b>16,119,306</b>

*See accompanying notes*

State-of-the-art infrastructure has led to research that encourages the active participation of decision makers, leading to better public policy, as well as health, social, and environmental improvements. Examples range from gaining a better understanding of Canada's cultural diversity, to models that evaluate future climate scenarios, to improvements in health care delivery. It will become increasingly important for Canada to find mechanisms to ensure that these and other research findings continue to be translated into best policies and practices.

## NOTES TO FINANCIAL STATEMENTS

March 31, 2004

### 1. GENERAL

The Canada Foundation for Innovation ["the Foundation"] was incorporated under Part 1 of the Budget Implementation Act, 1997 on April 25, 1997 for the purpose of making research infrastructure grants to Canadian universities, colleges, hospitals, and other not-for-profit research institutions to increase the capability of carrying on high quality research.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The following are the significant accounting policies:

#### Revenue recognition

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

Under the Budget Implementation Act, 1997 ["the Act"], the Foundation has, since inception, received grants from the Government of Canada totaling \$3.65 billion plus accrued interest of \$964,384 on the initial contribution to be held, invested, administered and disbursed in accordance with the Act and the related Funding Agreement between the Foundation and the Government of Canada. Grants totalling \$3.15 billion were received and recorded in prior fiscal years. An additional grant of \$500 million to enhance the support it provides to research hospital-based projects was recorded in the fiscal year ending in March 31, 2004.

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

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

#### Grants to eligible recipients

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

#### Investments

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

#### Capital assets

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

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

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

#### Use of estimates

The preparation of financial statements requires 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.

### 3. INVESTMENTS

Investments comprise of the following financial instruments:

	2004		2003	
	Cost \$	Market Value \$	Cost \$	Market Value \$
Money-market funds	160,652,678	160,657,389	75,604,707	75,601,785
Bonds	2,385,507,027	2,532,792,063	2,406,479,658	2,487,972,361
NHA Mortgage backed securities	380,846,087	392,495,007	255,157,081	263,325,350
Amortizing bonds	147,712,690	147,241,162	—	—
	<b>3,074,718,482</b>	<b>3,233,185,621</b>	<b>2,737,241,446</b>	<b>2,826,899,496</b>

### 4. CAPITAL ASSETS

Capital assets consist of the following:

	2004		2003	
	Cost \$	Accumulated Amortization \$	Cost \$	Accumulated Amortization \$
Leasehold improvements	1,405,068	336,150	1,373,845	194,464
Furniture and other equipment	1,111,162	713,620	1,090,090	538,770
	<b>2,516,230</b>	<b>1,049,770</b>	<b>2,463,935</b>	<b>733,234</b>
Accumulated amortization	(1,049,770)		(733,234)	
Net book value	<b>1,466,460</b>		<b>1,730,701</b>	

### 5. DEFERRED CONTRIBUTIONS

#### Expenses of future periods

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

	2004 \$	2003 \$
Balance, beginning of year	2,798,983,742	2,962,176,333
Add grants received [note 2]	500,000,000	—
Add restricted investment revenue earned	180,320,492	169,160,637
Less amount recognized as revenue	(358,550,541)	(332,094,560)
Less amount applied toward capital assets acquired	(52,295)	(258,668)
Balance, end of year	<b>3,120,701,398</b>	<b>2,798,983,742</b>

**Capital assets**

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

	2004 \$	2003 \$
Balance, beginning of year	1,730,701	1,766,002
Restricted grants applied toward the purchase of capital assets	52,295	258,668
Less amount amortized to revenue	(316,536)	(293,969)
Balance, end of year	<b>1,466,460</b>	<b>1,730,701</b>

**6. RESTRICTED CONTRIBUTIONS AND NET ASSETS**

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

**7. COMMITMENTS**

During the year, the Foundation awarded grants for a maximum amount of \$737.6 million [2003 – \$272.1 million]. Total disbursements to eligible recipients during the fiscal year were \$349.1 million [2003 – \$325.3 million]. To date, the Foundation has awarded grants for a maximum amount of \$2,759.0 million, of which \$1,230.4 million has been disbursed as of the end of the fiscal year. The balance of the awarded grants will be recorded as expenses in subsequent years as funds are disbursed.

The Foundation entered into a lease agreement in 2001 for its premises at 230 Queen Street [Ottawa, Ontario] for a ten-year period starting August 2001. The minimum annual lease payments related to these premises are approximately \$1,060,000. The Foundation sublets part of its current premises for an annual amount of approximately \$229,000.

**8. PENSION PLAN**

The employees of the Foundation may elect to become members of the Association of Universities and Colleges of Canada [AUCC] Pension Plan, a defined contribution plan managed by Sun Life Financial Inc. The employer contributions made to the Plan during the year ended March 31, 2004 amounted to \$190,162 [2003 – \$66,559].

**9. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying value of amounts receivable and payable approximate their fair value given the relatively short period to maturity of the instruments. The fair values of the investments, which are based on the year-end quoted market prices, are disclosed in note 3.

**10. TAX STATUS**

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