National Research Council Canada

Annual Report 2009-2010

National Research Council Canada
Conseil national de recherches Canada

Canada

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FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

Introduction

The following Financial Statement Discussion and Analysis (FSD&A) should be read in conjunction with the audited financial statements and accompanying notes for the National Research Council of Canada (NRC) for the fiscal year ended March 31, 2010.

The responsibility for the preparation of the FSD&A rests with the management of NRC. It has been prepared in accordance with the Public Sector Statement of Recommended Practice SORP-1.

The purpose of the FSD&A is to highlight information and provide explanations which enhance the users' understanding of NRC's financial position and results of operations, while demonstrating NRC's accountability for its resources. Additional information on NRC's performance is available in the NRC Departmental Performance Report (DPR).

The FSD&A consists of two distinct segments: Highlights; and Discussion and Analysis. Please note that all financial information presented herein is denominated in Canadian dollars, unless otherwise indicated.

Special note regarding forward-looking statements

The words "estimate", "will", "intend", "should", "anticipate", and similar expressions are intended to identify forward-looking statements. These statements reflect assumptions and expectations of NRC, based on its experience and perceptions of trends and current conditions. Although NRC believes the expectations reflected in such forward-looking statements are reasonable, they may prove to be inaccurate, and consequently NRC's actual results could differ materially from expectations set out in this FSD&A. In particular, the risk factors described in the "Risks and Uncertainties" section of this report could cause actual results or events to differ materially from those contemplated in forward-looking statements.

2009-2010 Highlights

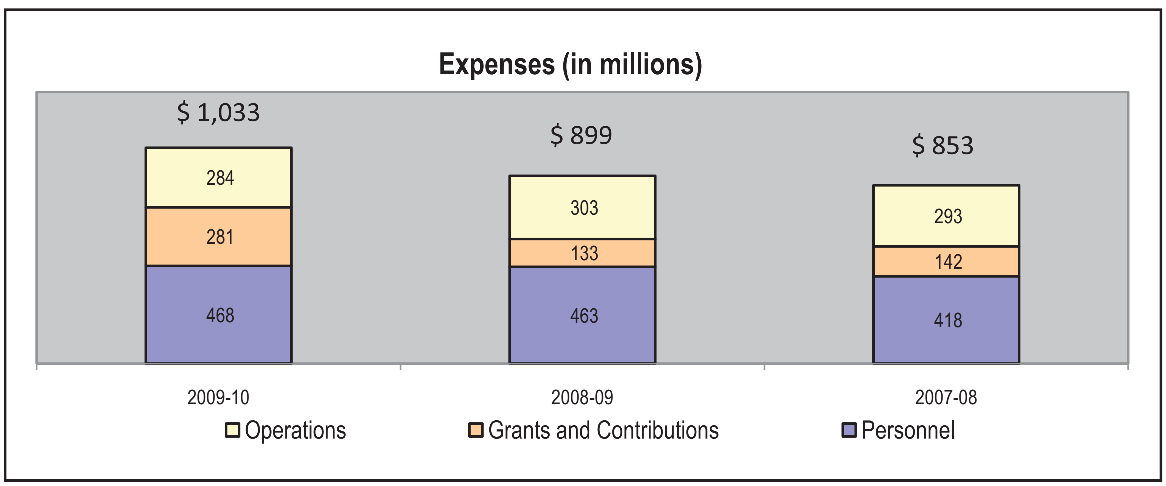
Financial Highlights

NRC's 2009-10 Financial Statements were influenced by a number of factors, including Canada's Economic Action Plan, the global economic downturn, NRC's 2008 Strategic Review exercise, expenditure restraint measures, and other significant events such as collective agreement negotiations. These factors, taken independently, play a major role in explaining financial account variances from year-to-year, and contributed to changes in NRC's Net Cost of Operations and Equity position, which increased by $119.8 million and decreased by $10.6 million in 2009-10, respectively.

Statement of Operations

Expenses: NRC incurred total expenses of $1.033 billion in 2009-10, up significantly from $899 million in 2008-09 and $853 million in 2007-08. The main contributor for the substantial increase in spending was related to additional funding received by NRC for the implementation of Canada's Economic Action Plan. The Economic Action Plan, introduced in January 2009, was the Government's response to one of the deepest global recessions by delivering billions of dollars in stimulus for the economy as a means of protecting Canadian jobs and income as well as ensuring a prosperous economy of tomorrow. NRC received and spent $128 million in additional appropriations to support scientific research and development activities performed by Canadian organizations, of which $126.6 million was spent on contributions with the remainder spent on personnel and operational costs. In addition to funding provided through parliamentary appropriations, NRC received and spent $16.8 million for Industry Canada's Community Adjustment Fund (CAF) program. NRC delivered $15.9 million of this funding to contribute to scientific research and development activities performed by Canadian organizations located within restructuring communities, with the remainder spent on personnel and operational costs.

The following chart illustrates NRC's total expenses categorized by major expense, over the past three fiscal years:



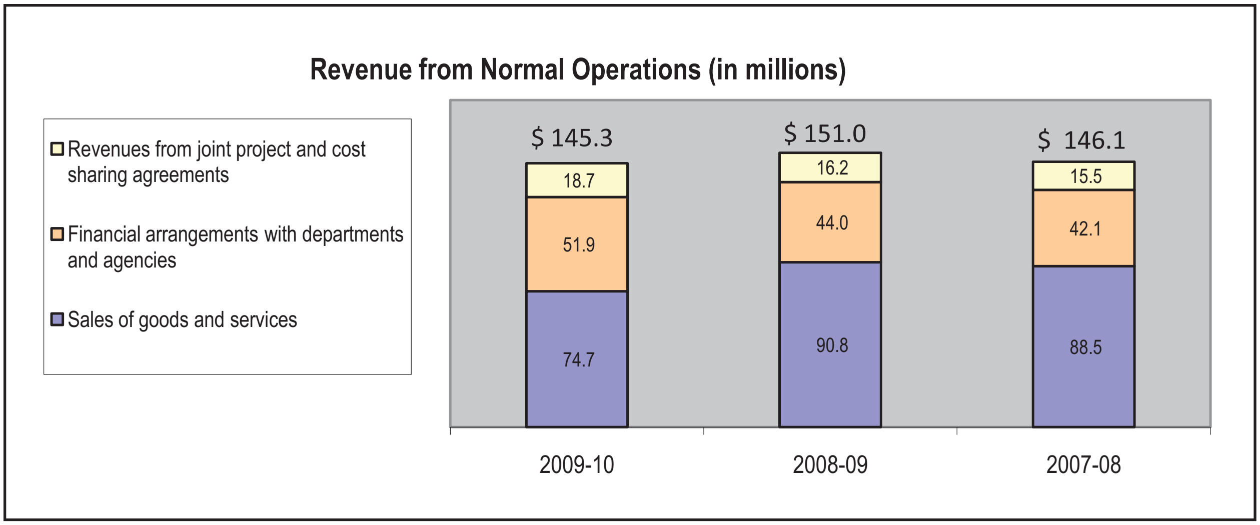
- ***Personnel:*** NRC's total expenses, as detailed in the Notes to the Financial Statements, are made up of 45% (51% in 2008-09) in salaries and employee benefits, which represent NRC's most significant cost driver. Salaries and employee benefits increased to $468 million in 2009-10, up from $463 million in 2008-09, and $418 million in 2007-08. Many factors explain the $5 million (or 1%) increase in personnel expenses between 2008-09 and 2009-10, including the following most significant: a $15.8 million increase in NRC's share of the Government's overall cost of employee benefits such as employer provided pension contributions and health and dental insurance, a $4.4 million increase for the provision of termination benefits related to Strategic Review decisions, a $5.2 million increase in expenses for the Research Associates (RA) program, student employment and term employees, a $14.6 million decrease in the charge for vacation leave and an $18.7 million decrease to the charge for future employee severance benefits. The remainder mainly represents increased salary costs as a result of salary step increases within negotiated salary ranges and an average 1.5% increase in salary rates following collective bargaining agreements entered into in 2009.

- ***Grants and Contributions:*** NRC made total net grants and contributions of $281 million in 2009-10, as compared to $133 million in 2008-09 and $142 million in 2007-08. As mentioned above, the majority of the increase is directly related to additional contributions funding from Canada's Economic Action Plan which provided NRC with an additional $142.5 million to support small and medium-sized enterprises with their innovation efforts through the NRC Industrial Research Assistance Program (NRC-IRAP). This investment will help the Government build a competitive advantage for Canada based on excellence in science and technology. With this support, SMEs are better equipped to perform R&D, commercialize new products and processes, and access global markets.
- **Operations:** NRC's operational costs (excluding salaries and employee benefits) decreased by $19 million in 2009-10 from 2008-09 ($9 million from 2007-08). The decrease in costs are mainly attributable to utilities, materials and supplies which decreased by $5.5 million ($5.3 million from 2007-08), professional and special services which decreased by $6.1 million ($4.1 million from 2007-08), and transportation and communication which decreased by $5.7 million ($3.8 million from 2007-08). The decrease in operational costs is forecasted to be maintained for upcoming years given NRC's implementation of expenditure growth restraint measures within these areas.

Further details on expense variations are explained in the Financial Analysis section.

Revenue: Revenue is important to NRC, not only as a means of financing its operating and capital expenditures, but also because it provides an indication of the value that NRC provides to its clients and collaborators. NRC earned total revenues of $169.6 million in 2009-10, up from $156.2 million earned in 2008-09 and $154.5 million earned in 2007-08. The sizeable increase in 2009-10 mainly results from a $16.8 million dollar financial arrangement with Industry Canada to administer contributions, under the Community Adjustment Fund (CAF) program, for scientific research and development projects performed by Canadian organizations located within restructuring communities. The inflow from Industry Canada for this project is non-recurring and relates to 2009-10 only.

NRC revenues, illustrated below, which have been adjusted for non-recurring interdepartmental transactions, provide a more accurate representation of revenues earned from NRC's normal operations. NRC revenues from normal operations decreased by $5.7 million in 2009-10 from 2008-09. The $16.1 million decrease ($13.8 million from 2007-08) in sales of goods and services to external parties was offset by a $7.9 million increase ($9.8 million from 2007-08) in financial arrangements with other government departments and agencies, and a $2.5 million increase ($3.2 million from 2007-08) in revenues from joint project and cost sharing agreements.



Sales of goods and services include services of a non-regulatory nature, sales of goods and information products, rights and privileges, as well as revenue derived from the lease and use of property. The significant decrease in sales of goods and services is attributable to many factors, most importantly the effect of the global economic downturn and the transformation of the NRC Canada Institute for Scientific and Technical Information (NRC-CISTI). The reduction in revenue occurred in many of NRC's Institutes / Branches / Programs (IBP) at varying degrees, depending on the industry they support. Several IBP's have seen over $1 million of their sales of goods and services decrease in 2009-10. In addition to economic effects, NRC-CISTI is currently under transformation and has experienced a net drop in sales of goods and services of over $3.7 million in 2009-10 as a result of clients adopting alternative service delivery arrangements prior to its full implementation in 2010-11. The transformation of NRC-CISTI is explained further in the Non-Financial Highlights section.

The $7.9 million increase in financial arrangements with other government departments and agencies mainly occurred at NRC's Centre for Surface Transportation Technology (CSTT) given several factors including incremental work required with the Department of National Defence to support their operational requirements, additional arrangements with Transport Canada as well as supplementary work to support the 2010 Winter Olympics.

Further details on revenues are explained in the Financial Analysis section.

Statement of Financial Position

Assets: NRC's total assets signify its ability to provide future services for Canadians. NRC's total assets as at March 31, 2010 reached $816.9 million, down from $821.3 million and $851.2 million as at March 31, 2009 and 2008, respectively. NRC's largest single component of assets are tangible capital assets, which represents 71% ($579.1 million) of the total and also accounts for the majority of the decline.

- ***Tangible Capital Assets:*** NRC's infrastructure is an important element for the successful delivery of its mandate; as such re-investments in tangible capital assets are crucial. In 2009-10, NRC acquired and/or constructed $66.9 million in tangible capital assets, up from $62.6 million in 2008-09 and $60.9 million in 2007-08. The total amount of annual amortization, transfers, disposals, and write-offs were greater than tangible capital asset acquisitions, consequently producing a decline in the total net book value of tangible capital assets over the past three years. NRC's largest components of tangible capital investments are research buildings and facilities as well as machinery, equipment and furniture. Combined, they account for over 83% of the cost (77% of the net book value) of tangible capital investments. NRC's most significant tangible capital assets are aging, therefore demonstrating the importance of NRC's recapitalization program. In March 2008, NRC completed a Building Condition

Assessment study, which identifies recapitalization and deferred maintenance funding requirements at an estimated value of $170 million. NRC received and spent $8.7 million in 2009-10 on recapitalization needs, and plans to spend an additional $10.4 million in 2010-11 from funding provided under the Modernization of Federal Laboratories initiative.

Further details on tangible capital asset acquisitions are provided in the Financial Analysis section.

Net debt: The government's net debt position is often called its "future income requirements" because this indicator provides a measure of the future income required to pay for past transactions and events. NRC's net debt *(financial assets less liabilities)* as at March 31, 2010 reached $112.1 million, up from $106.7 million as at March 31, 2009 and $71 million as at March 31, 2008. The $5.4 million increase in net debt is primarily due to a $7.8 million reduction in accounts receivables as a result of losses in sales of goods and services, a $4.4 million in additional accrued liabilities for anticipated costs related with the implementation of NRC's 2008 Strategic Review exercise, offset by a $6.1 million decrease in employee future benefits.

It is important to note that although parliamentary appropriations are not recorded as income within NRC's Financial Statement, the majority of NRC's net debt will be paid with future appropriations provided by Parliament.

Equity of Canada: NRC's equity of Canada as at March 31, 2010 was $480.8 million, down from $491.4 million as at March 31, 2009 and $540.8 million as at March 31, 2008, which illustrates NRC's net resources (financial and non-financial) that will be used to provide future services for Canadians. NRC's equity of Canada is comprised of its Non-Financial Assets less its Net Debt.

Non-Financial Highlights

Canada's Economic Action Plan: The effects of Canada's Economic Action Plan can be felt across the scientific research and development community in both financial and non-financial conditions. NRC-IRAP provides financial assistance, along with technical and business advisory services to small and medium-sized enterprises (SMEs) across Canada to help them develop technologies for competitive advantage. NRC-IRAP has received $128 million in 2009-10 and an additional $100 million in 2010-11 under Canada's Economic Action Plan. This funding has already provided NRC-IRAP with the financial means to assist over 1,700 new clients in 2009-10, representing a four-fold increase over the amount of new funded clients in the previous fiscal year and consequently increasing NRC-IRAP's ability to stimulate wealth creation for Canada through technology by enhancing the innovation and commercialization capacity of Canadian SMEs.

NRC's 2008 Strategic Review: The Government of Canada strategic review process involves a systematic review of all direct program spending and operating costs in departments and agencies, including NRC, to ensure costs are directed to achieve core government priorities. As a result of a strategic review exercise performed in 2008-09, certain NRC programs are being modified to align more closely with national priorities and the objectives of the Government's science and technology strategy. During the course of this review process, NRC considered alternative service delivery models to better position its role in supporting innovation in Canada and to adapt to the rapidly evolving science and technology environment. NRC-CISTI undertook two major activities to reduce its expenditures by 60% and progress the realization of NRC's 2008 Strategic Review:

- A non-profit corporation, Canadian Science Publishing, was created to take-over the Research Press business segment of NRC-CISTI's operations by 2010-11, and an alternate service delivery arrangement was implemented for the document delivery business segment.
- The Information Intelligence Services Program was amalgamated with the National Science Library Program and the services were aligned with NRC priorities. Alternate service delivery arrangements were implemented where feasible.

Governance: NRC has continued to implement a number of initiatives to improve its corporate governance in keeping with the broad government goal of improved management, accountability and transparency in the public sector.

NRC continued its implementation of an organizational-wide business planning process that serves as a crucial mechanism for making both financial and non-financial decisions, which involves planning across the organization on three important levels. The business planning process allows NRC to coordinate financial planning and budgeting, long-term capital planning (including real property), human resource planning, and information technology planning across the organization to achieve the greatest return on investment for Canadians. This improved business planning process was used in the development of setting priorities and aligning scarce resources to strategic and priority areas.

Financial management is an essential component of good governance and has substantial influence on corporate values and culture. The Financial Monitoring Division within NRC's Finance Branch (NRC-FB), implemented in November 2008, continued its ramp up of activities to further advance its mandate of helping NRC maintain an effective and efficient system of control over financial management. The Financial Monitoring Division is responsible for assessing the design and operating effectiveness of the organization's control framework to provide timely information for senior management with the intention of addressing identified weaknesses and to strengthen oversight and sound management of public resources entrusted to the organization.

Change in Leadership: A number of changes occurred during 2009-10 within NRC's senior leadership roles, including the Vice-Presidents of Engineering and Physical Sciences, the Secretary General and the newly appointed President.

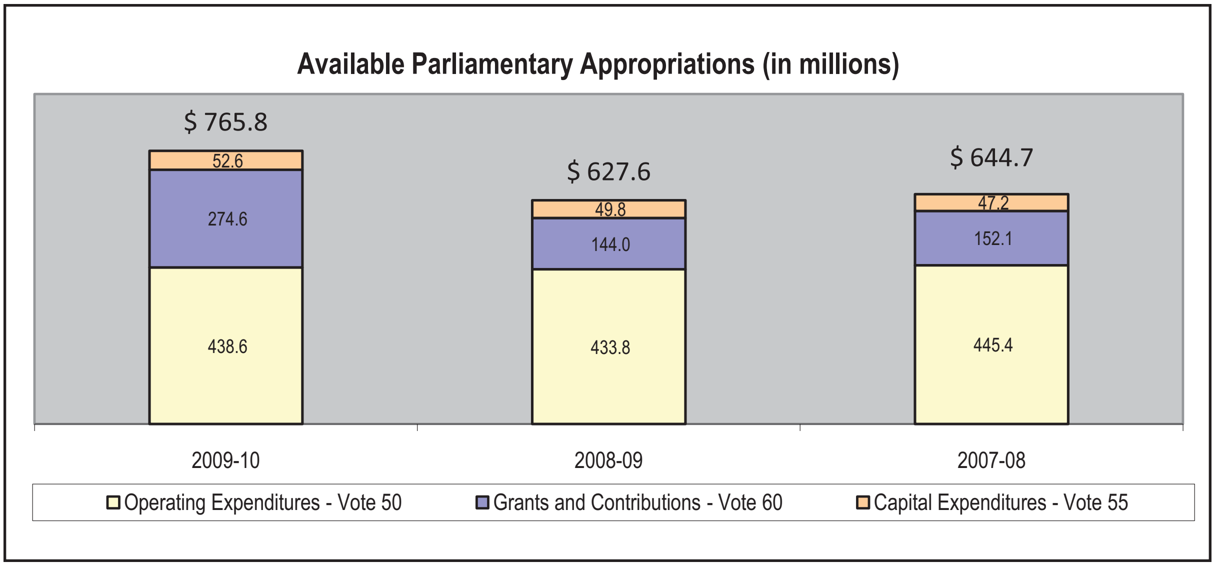
NRC's Strategic Direction: 2009-10 was the final year of NRC's organizational strategy *Science at Work for Canada*. Under the leadership of NRC's new President, work is underway to develop a new strategic plan for the organization that will position NRC as a key S&T leader in Canada. Emphasis will be placed on creating significant benefits for Canadians in the form of competitive technologies, new jobs, sustainable industries and growing sales and exports, while supporting the health of Canadians and the environment.

Discussion and Analysis

Risks & Uncertainties

As a federal government departmental corporation, NRC funds the majority of its salary, operating and capital expenditures from parliamentary appropriations. The non-salary portion of this funding is fixed, with no indexing for price increases. As a result, the actual funding for NRC, in terms of buying power, has been declining over the past decade. Furthermore, NRC's parliamentary appropriations have decreased over previous years, with the exception of 2009-10 given funds received from Canada's Economic Action Plan.

The following illustrates NRC's available parliamentary appropriations over the past three fiscal years, which include the Main Estimates, the Supplementary Estimates, Transfers, Adjustments and Warrants. The following table excludes statutory appropriations (representing Spending of revenues pursuant to paragraph 5 (1) e of the National Research Council Act, Contributions to employee benefit plans, Spending proceeds from the disposal of surplus Crown assets, Collection agency fees and Losses on foreign exchange).



The $138.2 million increase in 2009-10 to $765.8 million from $627.6 million is mainly related to funding received from Canada's Economic Action Plan. Without these elements, NRC's available parliamentary appropriations would have been consistent with the previous fiscal year at $625.8 million with $43.9 million in capital expenditures, $147.1 million in grants and contributions, and $434.8 million in operating expenditures.

Furthermore, NRC owns and manages 189 specialized buildings and facilities across Canada that comprise approximately 560,907 square meters of space. It also has an equipment and informatics base of $609.7 million in cost, with $199 million in net book value ($594 million in cost, with $202.7 million in net book value in 2008-09). NRC's capacity to fund the upgrade or replacement of these assets from its appropriations is limited, and as a result may need to secure sources of funding external to NRC for this purpose given the results of the Building Condition Assessment study performed in 2008 which concluded funding requirements of $170 million.

Details of other factors influencing NRC's budget pressures are provided below.

Sunsetting Funding: In order to ensure value for money, a Government of Canada practice is to provide funding for new initiatives on a sunsetting basis. This means that rather than providing a permanent increase in the NRC allotment, the government allocates funding for specified purposes for a limited period of time with the option for renewal. Renewal is conditional on various factors, including performance, achieving desired objectives, linkages to priorities, and availability of funds.

Although funding is not necessarily provided on an ongoing basis, new government-approved initiatives, such as the establishment of technology cluster sites in communities across Canada, often entail an ongoing commitment from NRC in terms of the construction and maintenance of new specialized facilities and the hiring of staff. There is also an expectation by the communities that support these new initiatives, and in some cases invest in them, that they will exist beyond the particular funding window. These challenges add complexity to the organization's planning, budgeting and operations.

Currently, NRC has numerous initiatives and projects funded on a sunsetting basis, several of which received renewed intentions of support from the Government in the 2010 Federal Budget. Examples of initiatives on a sunsetting basis include the following:

- Technology Cluster Initiatives: Since its inception in 2000-01, NRC has spent over $550 million in technology cluster initiatives. Although the funding for NRC's technology cluster initiatives terminated in 2009-10, the 2010 Federal Budget confirmed the federal government's continued support by outlining a plan to provide NRC with $135 million over two years for this initiative. NRC's technology cluster initiatives play a key role in activities that support the integration of players in Canada's innovation system. They nurture the growth of local scientific and innovative capability that drives dynamic and competitive industries; and also help to address challenges inherent in the current Canadian industrial structure (predominance of SMEs).

- TRIUMF: Although the most recent contribution agreement with TRIUMF (Canada's National Laboratory for Particle and Nuclear Physics) ended in 2009-10, the 2010 Federal Budget outlined the Government's intention to contribute an additional $222 million for TRIUMF's operational costs over the next five years. Since NRC's involvement in 1976, NRC has provided over $900 million in funding to TRIUMF, with $44 million provided in 2009-10.

- Genomics R&D Initiatives: In 2008-09, NRC received approval to renew the Genomics R&D Initiatives (GRDI), which included NRC as well as 5 other federal government departments. Total funding approved across all government departments amounts to $59.7 million until 2010-11. NRC's portion is $18 million ($6 million in each of 2008-09, 2009-10, and 2010-11). GRDI is a federal program that coordinates genomics R&D in 6 federal departments and agencies to support their mandates, public policy objectives and key national interest in human health, agriculture and food safety, environment and natural resources management.

Foreign Currency: NRC purchased over $56 million in goods and services in currencies other than the Canadian dollar in 2009-10 and has for several years, which exposes NRC to an element of risk due to fluctuations in foreign exchange. Every year, the most significant amount (94% in 2009-10) of purchases in foreign currencies is completed in US dollars. Due to the strength of the CDN dollar over the US dollar in 2009-10, NRC's purchasing power has increased by approximately $1.4 million US when compared to 2008-09 levels.

In addition, NRC received $33.4 million CDN in receipts from foreign currencies in 2009-10, of which $31 million was received in US currency, compared to $47.8 million CDN received in 2008-09. Consequently, the significant decrease in US currency receipts provided a foreign exchange hedge of only 58%, compared to the 87% achieved in the previous year.

Dependence on Revenue: The nature of NRC's activities permits NRC to generate revenues which it can use to reinvest in its operations. NRC's dependence on external sources of funding has been growing since the early 1990s. The portion of NRC's operating and capital expenditures funded from external sources of income was roughly 11% in 1991-92. In 2009-10, this percentage has climbed to 25%, which represents a 4% increase from the average previous four fiscal years. The increase mainly results from NRC's use of revenue based funding to support its operations from $87.2 million in 2008-09 to $110.2 million in 2009-10.

In particular, NRC maintains technology centres that rely on external sources of revenue to fund their operations, namely NRC-CSTT and NRC's Canadian Hydraulics Centre (NRC-CHC). In addition, NRC's two largest institutes – NRC's Institute for Aerospace Research (NRC-IAR) and NRC-CISTI – rely on external sources of revenue to fund 48% (52% in 2008-09) and 30% (33% in 2008-09) of their operations, respectively. Significant downturns in the industries or federal departments that these groups support could impact NRC's ability to continue operations at current levels.

Finally, it is important to note that NRC must strike a fine balance between providing contract research services that generate needed revenue and performing the government-funded research that keeps NRC at the leading-edge of science, technology and innovation. Too much emphasis on revenue generating contracts could compromise NRC's advanced knowledge and technology base, which in the long-term could reduce NRC's ability to serve industry and respond to the needs of the nation in critical fields such as energy, the environment, health and wellness, and other priority areas outlined. Furthermore, too much focus on research may compromise NRC's ability to reinvest in itself.

Financial Analysis

The following is an analysis that explains the meaning of main items appearing on the financial statements, significant variances, and financial trends.

Assets

Due from Consolidated Revenue Fund (CRF): This account represents the amount of cash that NRC is entitled to withdraw from the federal government treasury. This includes cash to discharge its liabilities for which NRC has already received an appropriation, as well as revenue received but not spent. NRC's due from CRF was $197.4 million as at March 31, 2010, up from $189.3 million as at March 31, 2009. The $8.1 million increase largely results from a $27.6 million increase in accounts payable and accrued liabilities which are funded by 2009-10 appropriations, a $3.6 million increase in specified purpose account funding, offset by $23.6 million decrease in revenue available for use in subsequent years.

Accounts Receivable: Accounts receivable and advances totalled $18.9 million as at March 31, 2010, a $7.8 million decrease from 2009, is broken down in Note 4 to the financial statements. The two main categories within this line item are receivables from external parties and repayable contributions:

Receivables from external parties

NRC had accounts receivable with external clients worth $15.4 million as at March 31, 2010 ($21.7 million - 2009) with a corresponding allowance for doubtful accounts equal to $856 thousand ($804 thousand - 2009). Write-offs in 2009-10 were $689 thousand ($755 thousand in 2008-09), which is low given the total value of NRC's external revenues. The sizeable decrease of 29% in accounts receivable from external parties follows the lower level of revenue generated from total sales of goods and services in the year and the more recent loss in sales generated by NRC-CISTI given its transition to an alternative service delivery model occurring in 2010-11.

NRC-IRAP TPC Repayable Contributions

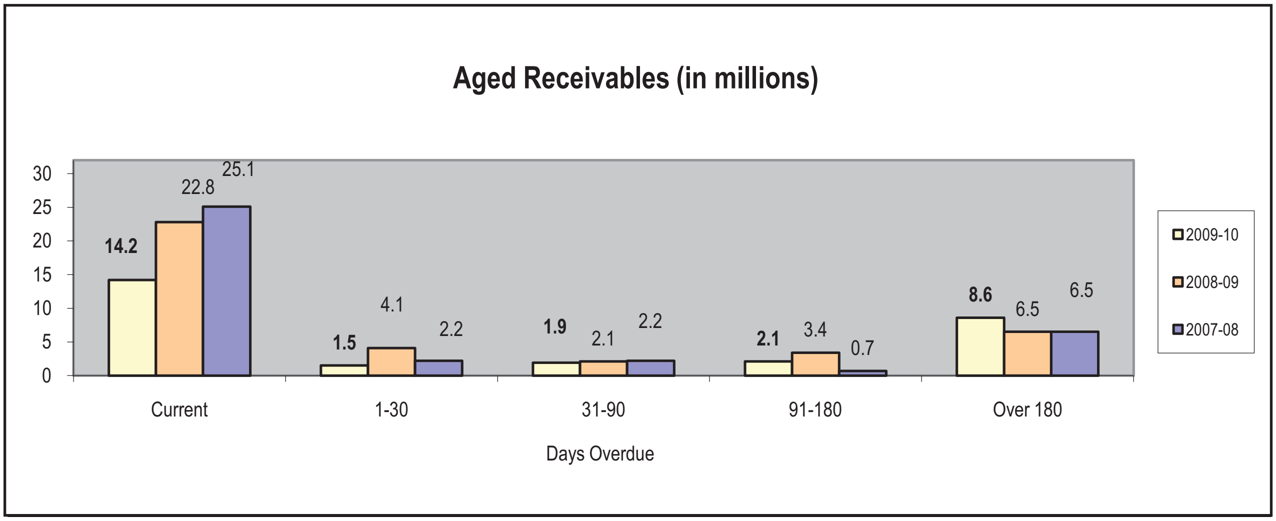
The NRC-IRAP Technology Partnerships Canada (TPC) program has been administered by NRC on behalf of Industry Canada since 1998. This program provides conditionally repayable contributions to small and medium-sized enterprises (SMEs) to support the pre-commercialization phase of their technology development. This conditional repayment program in most cases requires quarterly repayments of the contribution based on a percentage of the recipient's gross revenue. Although no new contributions have been made since 2008-09, the wind down phase will require the collection of the repayable contributions over the next several years as per repayable contribution agreements in place and conditions therein.

The NRC-IRAP TPC program supports small start-up firms, whose future success is often entirely dependent on one technology. Failure to bring the technology to market, at times, can result in the firm ceasing operations. Even with the very high-risk nature of this program, NRC has received repayments amounting to approximately 33% of contributions disbursed as at March 31, 2010 (29% as at March 31, 2009). With 215 (239 as at March 31, 2009) projects still being administered, this percentage is expected to increase over the next decade. The NRC-IRAP TPC accounts receivable as at March 31, 2009 was $10.6 million ($13.4 million - 2009) with a corresponding allowance for doubtful accounts of $8.6 million ($11.6 million - 2009), highlighting the high-risk nature of the program.

Aged Accounts Receivable

In 2009-10, 62% (74% in 2008-09 and 80% in 2007-08) of accounts receivable are aged 90 days or below. The significant decrease in the value of receivables aged 90 days or below is due to a decrease in revenue generated by NRC. The increase in receivables aged over 180 days' results from two receivables with clients under the NRC-IRAP TPC repayable contribution program which account for over $2.4 million of the balance.

The aging of all accounts receivable, gross of allowances, as at March 31 is as follows:



Equity Investments: As part of its mandate to promote industrial innovation in Canada, NRC provides financial assistance to firms through access to equipment, intellectual property and incubation space in its laboratories and Industrial Partnership Facilities. Since these companies are often in their infancy and cannot afford to pay the full cost of the assistance received, NRC, on occasion, takes an equity position in the company in return for the assistance provided. This helps the firms survive the critical technology development stage. It is not management's intention to hold equity investments over the long-term. NRC will consider timely opportunities for divestiture of equity investments by taking into account the interests, market liquidity and expected future growth of the company.

The full value recorded on the statement of financial position reflects NRC's investment in publicly traded companies as its shares in privately held corporations are deemed to have no market value. NRC's equity investments decreased from $659 thousand to $252 thousand in 2009-10 following the sale of its equity positions in 5 companies, realizing $3 million in net gains.

The following table represents an overview of NRC's 2009-10 equity holdings and disposal transactions.

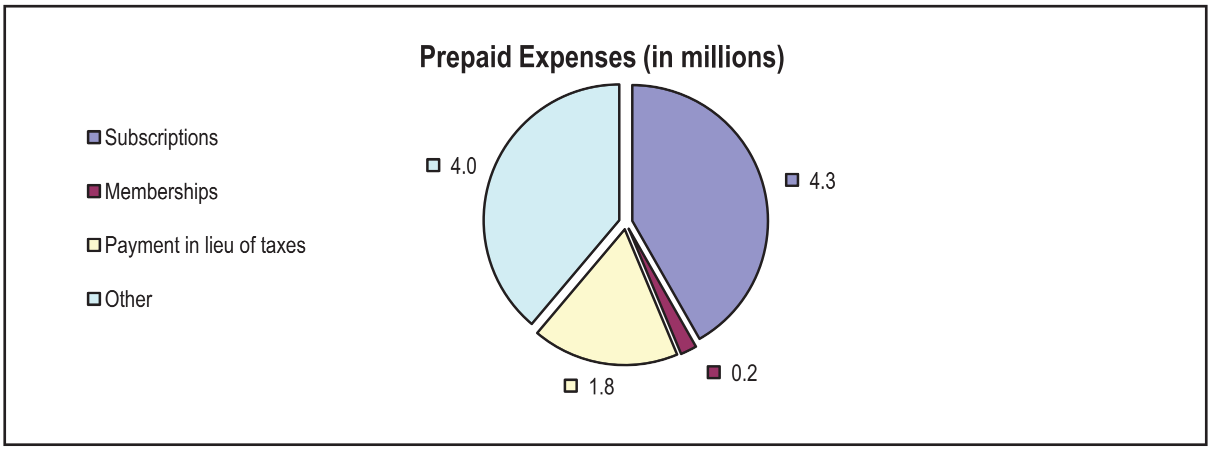
Company	Opening balance (in dollars)	Book value of equity investments sold during the year (in dollars)	Closing balance (in dollars)	Proceeds from sale of equity investments (in dollars)	Gain (loss) on sale of equity investments (in dollars)
PharmaGap Inc.	392,933	(392,933)	-	314,234	(78,699)
Luxell Technologies Inc.	14,487	(14,487)	-	24,144	9,657
Pure Energy Visions Corp.	1	(1)	-	70,534	70,533
Imris Inc.	1	(1)	-	2,962,479	2,962,478
Privately held Corporations	14	(1)	13	5,000	4,999
Chemaphor Inc.	252,061	-	252,061	-	-
Omnitech Consultant Group Inc	1	-	1	-	-
Cequence Energy Ltd.	1	-	1	-	-
Total	**659,499**	**(407,423)**	**252,076**	**3,376,391**	**2,968,968**

NRC's intention is to eventually liquidate the remaining equity positions, when conditions permit.

Endowment Fund Investments: The Holmes Endowment Fund is an investment bequeathed to NRC in July 1994. Up to two-thirds of the endowment fund's yearly net income is used to finance the H.L. Holmes award on an annual basis. The award covers a one- or two-year period and provides the opportunity to Canadian post-doctoral students to study at world famous graduate schools or research institutes under outstanding researchers. In 2009-10, NRC provided a grant totalling $117 thousand to the recipient of the 2009 NRC H.L. Holmes Award. The recipient is using the total award of $198 thousand to fund two years of collaborative research at the Harvard Medical School in Cambridge, Massachusetts to explore cellular processes leading to cholera, a sever diarrheal disease that afflicts or kills many in developing countries.

The endowment fund reached a fair market value of $4.7 million as at March 31, 2010 ($4.6 million as at March 31, 2009). The investments within the portfolio had an average effective return of 5.07%. The endowment fund is presented at an amortized cost of $4.5 million ($4.4 million as at March 31, 2009) on the Statement of Financial Position and not at fair value.

Prepaid Expenses: NRC's prepaid expenses as at March 31, 2010 were $10.3 million ($12.1 million as at March 31, 2009). The decrease of $1.8 million is mainly attributable to a significant reduction in scientific journal subscriptions within the NRC Canada Institute for Scientific and Technical Information (NRC-CISTI), which reduced its prepaid expenses from $6.3 million to $ 4.3 million. Subscriptions form the primary component of NRC's prepaid expenses. Canada's science library subscribes to many of the world's major scientific and technical journals and databases, and is in the midst of restructuring following the previously mentioned Strategic Review.



Other prepaid expenses include various items such as software license and maintenance, travel and conference reservations, rental fees and security deposits.

Tangible Capital Assets: NRC's tangible capital asset net book value has decreased from $583.1 million in 2008-09 to $579.1 million in 2009-10. Total tangible capital asset acquisitions totalled $66.9 million, amortization totalled $67.9 million, and net assets transferred, disposed or written-off were $3 million, of which $874 thousand relates to a transfer to inventory for resale.

Acquisitions

NRC spent $66.9 million on capital expenditures during 2009-10, including $8.7 million received in funding for the modernization of federal laboratories. This is a slight increase from the $62.6 million spent in 2008-09. Of the $66.9 million in tangible capital asset additions, $26.3 million or 39% relate to purchases of machinery and equipment. The remaining balance is primarily made up of assets under construction ($24 million or 36%) as well as investments in NRC buildings and facilities ($8.4 million or 13%).

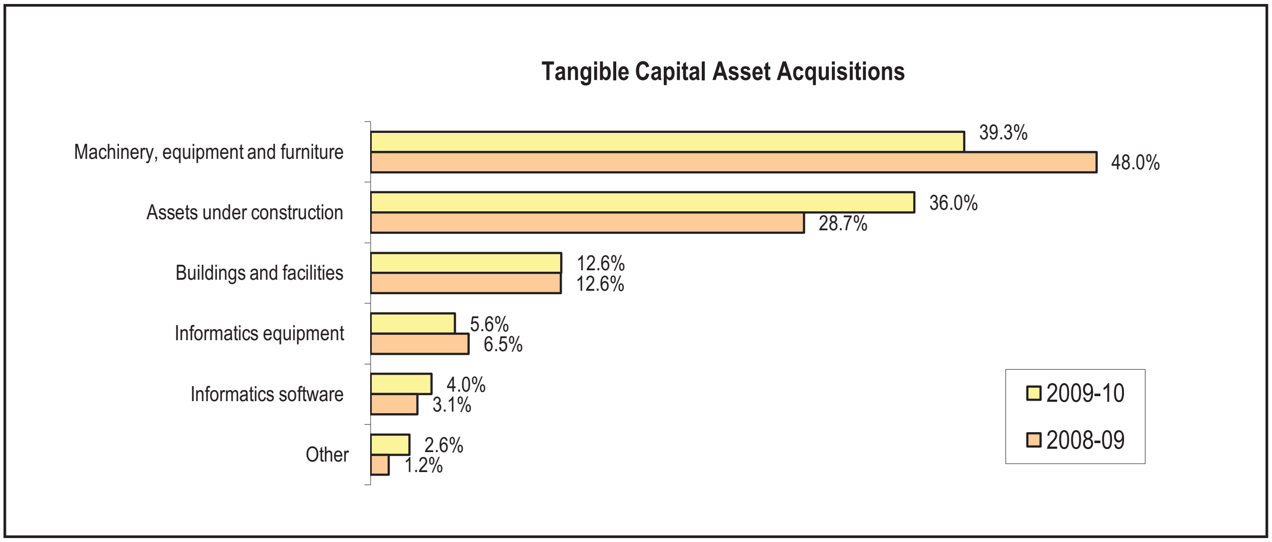
The following represents significant tangible capital assets expenditures in 2009-10:

- NRC spent $8.7 million in 2009-10 on specific recapitalization needs of multiple buildings and facilities located across the country. NRC received this extra funding in 2009-10 under the Federal

Government's Modernization of Federal Laboratories initiative. A significant portion of these projects are ongoing and will be completed in 2010-11 with additional funding received under this initiative. The nature of recapitalization and deferred maintenance work completed in 2009-10 varies by infrastructure and includes: upgrades to laboratories to accommodate new equipment, improvements to temperature and humidity controls, replacement of windows, roofing material, electrical and mechanical systems. One significant project includes a $2 million investment on HVAC and emergency system upgrades to improve the performance and efficiency of the Nanofab cleanroom facility at NRC's Institute for Molecular Sciences (NRC-IMS).

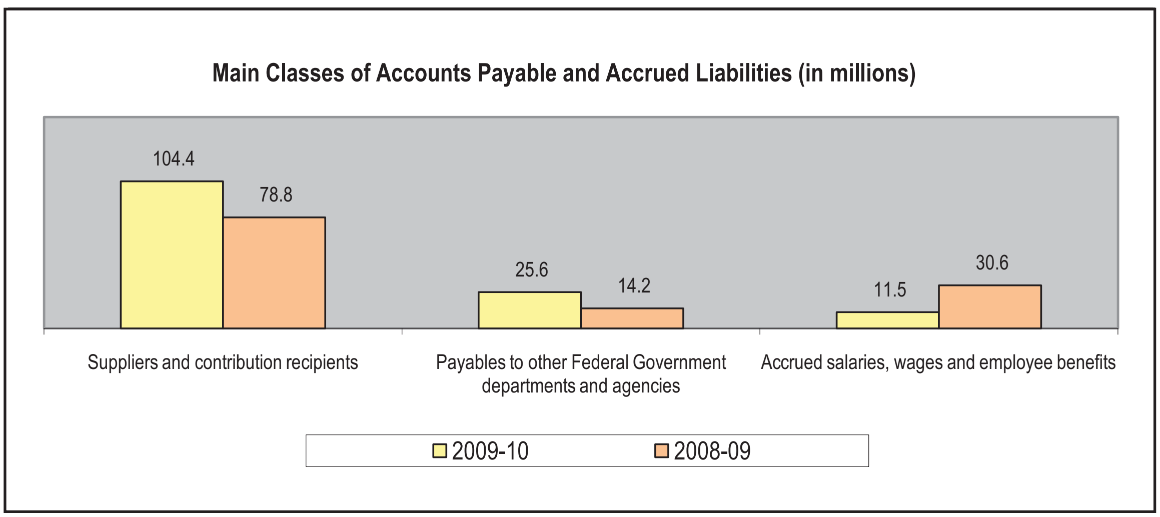
- NRC-IMS also invested $1.5 million to acquire and develop a high-performance evaporation system equipped with e-beam, thermal evaporation sources and an ion-assisted gun. The system will be used for deposition of materials and coatings for mid-IR applications.
- NRC's National Institute for Nanotechnology (NRC-NINT) incurred $1.3 million to construct the Hitachi Electron Microscopy Innovation Centre (HEMiC) facility which will house three (3) new electron microscopes. The HEMiC program was launched to develop state-of-the-art electron emitters and enable NRC-NINT to develop new approaches to solve industrial problems, enable technology advances and commercialization opportunities for clients and collaborators, as well as draw new partners to the organization.
- NRC's Corporate Branches incurred $1.3 million in 2009-10 to continue with the development of an integrated reporting tool referred to as Business Intelligence (BI). The reporting tool will be used across the NRC to provide timely financial and non-financial information to stakeholders.
- $1.2 million in tangible capital investment costs were incurred in 2009-10 for NRC's Information Management Services Branch (NRC-IMSB) to update its server facility to accommodate new Direct Digital Control (DDC) capabilities across NRC buildings within the National Capital Region (NCR). This project will provide building operators with the ability to monitor, control, alarm, and diagnose building equipment such as heating, ventilation and air conditioning remotely.
- NRC's Institute for Chemical Process and Environmental Technology (NRC-ICPET) continued its tangible capital asset project to construct an Analytical High Resolution Transition Electron Microscope to meet current leading edge research requirements for imaging and analytical characterization of organic and inorganic materials. To date, NRC-ICPET has spent over $3.2 million on this project, for which $1.2 million was spent in 2009-10.
- NRC's Biotechnology Research Institute (NRC-BRI) invested over $1.1 million in 2009-10 for the construction of a new laboratory for research and development activities related with the production of methane and hydrogen from vegetable produce.
- NRC's Institute for Aerospace Research (NRC-IAR) incurred over $900 thousand in 2009-10 for a total project cost of $1.5 million to construct an Optically Accessible High Pressure Combustion Rig to test combustion systems in a detailed and non-intrusive manner under realistic gas turbine operating conditions. This facility will be used to support multiple research and development projects, including joint-research, and is considered a key asset for NRC's advanced combustion test cells.

The following diagram depicts NRC's distribution of tangible capital asset acquisitions over the last two fiscal years.



Liabilities

Accounts Payable and Accrued Liabilities: NRC's accounts payable and accrued liabilities as at March 31, 2010 were $144.3 million ($128.8 million as at March 31, 2009). The increase of $15.5 million is mainly due to a significant increase of $25.6 million in payables to suppliers and an $11.4 million increase in payables to other government departments, offset by a $19.1 million decrease in accrued salaries and wages and a $2.3 million decrease in environmental liabilities.

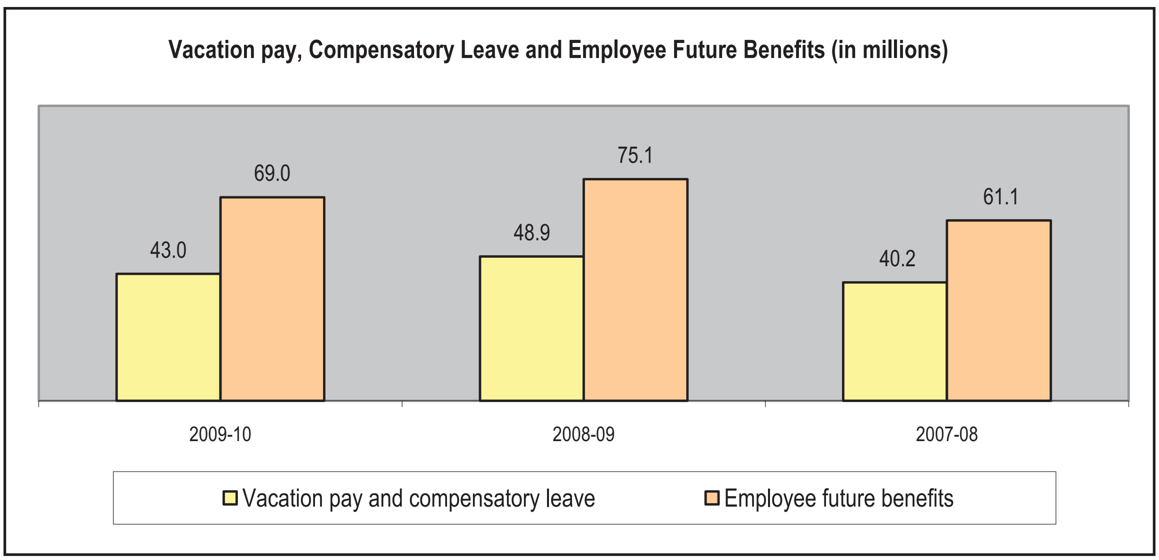


The $25.6 million increase in payables to suppliers and contribution recipients is primarily explained by the additional appropriations received by NRC in 2009-10 for IRAP contributions and infrastructure funding. The $11.4 million increase in payables to other Federal Government departments and agencies is due to an $11.7 million increase in payables for NRC's portion of employee benefits following the payment of retroactive salaries in 2009-10.

NRC's accrued salaries, which represents salary earned by personnel as at March 31, 2010 for which they have not received payment, decreased by $19.1 million in comparison with the previous year. A retroactive salary adjustment of $13.7 million was recorded in 2008-09 due to the ongoing negotiations of collective agreements governing a majority of NRC's employment force. The remaining difference of $5.4 million is primarily explained by a decrease in accrued salaries at year-end given the last pay period of the year coincided with March 31st, which was offset by an allowance recorded for termination benefits due to NRC's strategic review.

NRC's environmental liabilities have decreased by $2.3 million from $4.2 million in 2008-09, the decrease represents costs of restorations incurred by NRC during the year. In addition to the liability of $1.9 million as at March 31st, NRC has disclosed a contingent liability in the Notes to the Financial Statements as a result of initial testing performed in 2009-10 on suspected sites. NRC has not recorded a liability for these additional sites in its financial statements given that NRC is currently unable to determine if the sites are likely to require restoration. NRC will continue its restoration and management of existing sites in 2010-11 with funding provided by the Government through the Accelerated Federal Contaminated Sites Action Plan. In addition, NRC will complete detailed testing in 2010-11 on research sites disclosed as contingent liabilities within the Notes to the Financial Statements in order to develop a proper course of action to address existing concerns.

Vacation Pay and Compensatory Leave: Vacation pay and compensatory leave have steadily increased over the past years due to the natural rise in employment wages. However, as a result of collective agreement negotiations finalized in 2009-10, vacation pay and compensatory leave have decreased by $5.9 million in 2009-10 due to additional restrictions imposed on carry-over conditions and management oversight activities taken to manage outstanding vacation liabilities.



Employee Future Benefits: Employee future benefits represent an allowance for severance benefits payable to employees upon termination of employment with the public service. The allowance for employee future benefits is established at year end from the total annual salary cost of NRC's indeterminate employees. The decrease of $6.1 million results from a 3.65% decrease in the rate used by Government Departments to accrue their portion of the allowance offset by the natural rise in employment wages applicable to NRC's continuing workforce.

Deferred Revenue: Deferred revenue totalled $79.5 million as at March 31, 2010 as compared to $77.2 million in 2009, and is broken down in Note 9 of the financial statements.

Contributions Related to Leased Tangible Capital Assets

Deferred revenue for contributions related to leased tangible capital assets result from tangible capital assets provided to NRC under a lease agreement with monetary consideration below fair market value. The contributions related to leased tangible capital assets is associated with leases of facilities for $1 per year with the University of Western Ontario to accommodate NRC's Industrial Materials Institute (NRC-IMI) and NRC's Institute for Research Construction (NRC-IRC), the University of Alberta to accommodate NRC-NINT, and the University of Prince Edward Island to accommodate NRC's Institute for Marine Biosciences (NRC-IMB).

When new capital leases are recognized, NRC will establish a non-financial tangible capital asset as well as corresponding deferred revenue equal to the fair market value of the capital lease. Over time and as the asset is used, NRC recognizes equal amounts of amortization and revenue (lease inducement revenue). As a result, no impact occurs on NRC's net cost of operations or its Equity of Canada. As at March 31, 2010 this balance was $50.6 million ($53.1 million as at March 31, 2009). The balance decreased by $2.5 million in the current year to account for revenue recognized in accordance with the useful life of the related asset.

Specified Purpose Accounts

NRC undertakes collaborative work with clients for the mutual benefit of both parties. Funding provided by the collaborator is placed in a Specified Purpose Account (SPA) and used over the duration of the project. Amounts remaining in the SPA at year-end are recorded as deferred revenue as the funds will be expended in the coming year(s) on the project. At the end of 2009-10, this amount totalled $20.6 million ($17.1 million as at March 31, 2009), representing an increase of 20% over the previous year. This increase is largely due to a $1.7 million and a $790 thousand increase in unspent funds received by NRC-NINT and NRC-IMI, respectively during 2009-10 as a result of significant joint projects and cost sharing agreements.

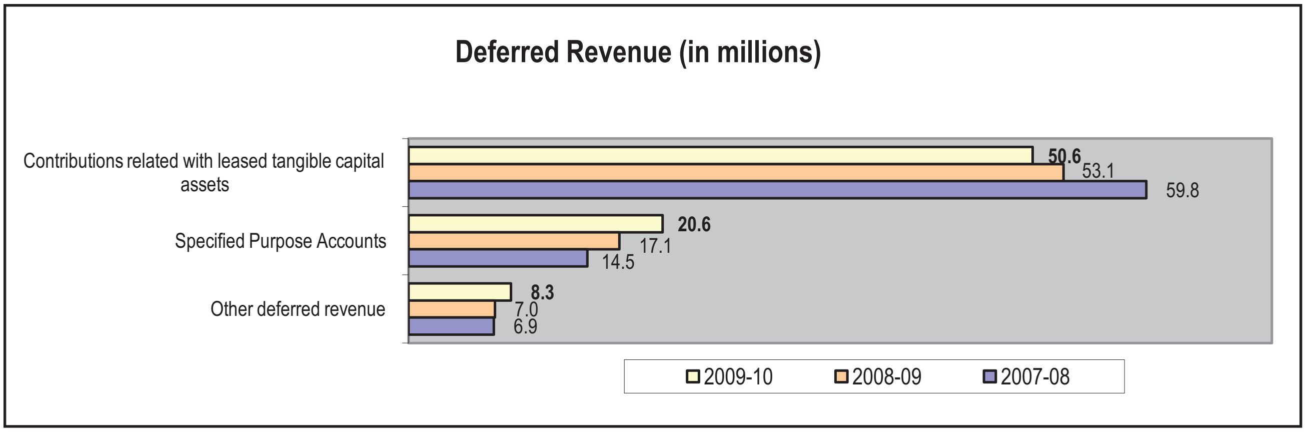
Other

NRC had other deferred revenues of $8.3 million as at March 31, 2010 ($7 million as at March 31, 2009). Other deferred revenue consists primarily of Research Press subscriptions at $4.7 million ($5.7 million in 2008-09), conference and seminar registration at $1.3 million ($375 thousand in 2008-09), and funds received in advance in accordance with the sale of specialized inventory at $1 million.

- <u>Research Press</u>: NRC-CISTI publishes research journals that are available for purchase on a subscription basis. When NRC receives payment for the subscription, it records the amount as deferred revenue and then recognizes the revenue each month as the journal is issued. Deferred revenue from research press has diminished in 2009-10 given the upcoming transformation in 2010-11, and will no longer appear in the NRC financial statements in the future as this activity will be borne by the new service provider.

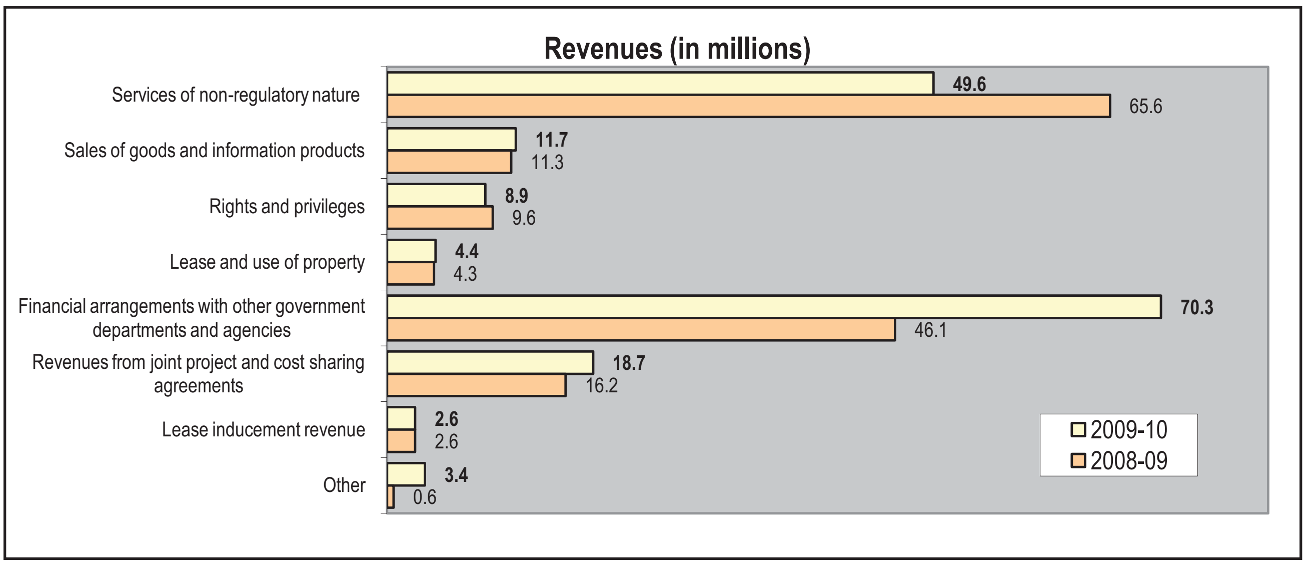
- <u>Conference and Seminar Registration</u>: NRC conducts many conferences and seminars which often require registration many months in advance of the conference date. Receipts from registration are recorded as deferred and recognized when the conference takes place. Deferred revenue from conference and seminar registration has increased in 2009-10 given NRC's involvement with the upcoming 2010 World Tunnel Congress held in Vancouver, British Columbia.

- <u>Sale of specialized inventory</u>: NRC was contracted in 2008 to design and build specialized equipment used by the astronomy industry. The deferred revenue recorded in 2009-10 results from cash received to date in accordance with contract milestones. The legal transfer of ownership is scheduled to take place in 2010-11, at which point NRC will recognize the balance as revenue earned.



Revenues

NRC's total revenues were $169.6 million in 2009-10, compared to $156.2 million in 2008-09. Recent trends in revenue components are shown in the following chart. Despite the fact that NRC's total revenue increased in 2009-10, NRC's revenue from normal operations actually decreased by $5.7 million as discussed in the Highlights section.



Services of a Non-Regulatory Nature: In 2009-10, 29% or $49.6 million (42% or $65.6 million in 2008-09) of NRC revenues were generated from services of a non-regulatory nature, which primarily consists of research services provided directly to industry and academic clients. As discussed in the Highlight section the primary causes for the decrease of $16 million are largely attributable to the global economic downturn and the transformation of NRC-CISTI. More specifically NRC-CISTI experienced a $4.4 million decrease, three (3) IBP's have had a decrease of more than $1.5 million and two (2) IBP's have had a drop of more than $1 million in services of non-regulatory nature. The main cause of the $4.4 million decrease at NRC-CISTI is due to clients transitioning to new suppliers prior to the full implementation of the alternative service delivery model. The remaining decrease in services of a non-regulatory nature is due to multiple IBP's experiencing a reduction in revenue in 2009-10.

Sales of Goods and Information Products: As part of its goal to disseminate scientific and technical information of importance to industry, NRC has publications and certified reference materials that it sells to clients. Total sales of goods and information products totalled $11.7 million in 2009-10, as compared to $11.3 million in 2008-09. The largest component of revenue derived from the sale of goods and information products are research press journals sold through Canada's scientific library. Research press income earned in 2009-10 was $8 million, compared to $7.2 million in 2008-09.

Rights and Privileges: Royalty revenue is earned from companies that license the rights to use NRC technologies. Royalties are typically based on a percentage of the licensee's sales. In 2009-10, NRC generated $8.9 million in royalties, down slightly from $9.6 million in 2008-09. The main contributor of revenue earned from this income stream is NRC's Institute for Biological Sciences (NRC-IBS) which generates over $4 million annually in royalties.

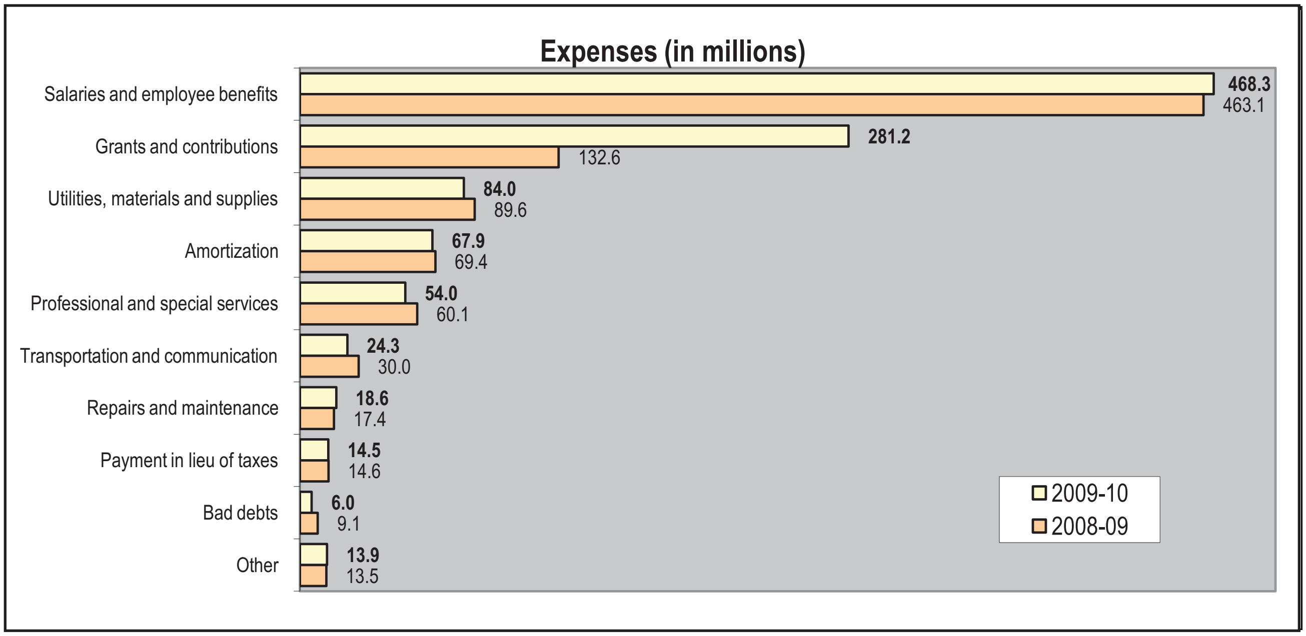
Lease and Use of Property: Facilitating access to NRC researchers and facilities is an important part of technology transfer at NRC. To this end, NRC provides laboratory space to companies on a commercial basis, often as part of a collaboration or technology transfer agreement. Revenue from lease and use of property amounted to $4.4 million in 2009-10, compared to $4.3 million in 2008-09. The year over year consistency demonstrates NRC's ability to continuously attract external stakeholders to utilize NRC facilities, laboratories and research equipment.

Financial Arrangements with Other Government Departments and Agencies: NRC undertakes research and administers funding on behalf of other federal government departments through NRC programs. The incremental costs associated with this work are reimbursed to NRC. In 2009-10, the amount of work undertaken for other government departments was significant, totalling $70.3 million ($46.1 million in 2008-09). Excluding the effect of transfer payment programs administered by NRC on behalf of Industry Canada (CAF and TPC), which increased by $16.3 million in 2009-10, financial arrangements with other government departments and agencies have increased by $7.9 million. Of this amount, $5.3 million is a result of additional work completed by NRC-CSTT as explained in the Highlights section, with the remainder spread across multiple IBP's.

Revenues from Joint Project and Cost Sharing Agreements: NRC receives income in the course of collaborative research projects that involve cost sharing arrangements for work that is likely to lead to new expertise or technology. In 2009-10, collaborative funding across all sectors at NRC earned $18.7 million ($16.2 million in 2008-09). Revenue from joint research projects are recognized in accordance with expenses or until the project is complete. Consequently, revenues fluctuate as NRC resources are dedicated and used to deliver the terms set out in each agreement. As such, the increase achieved in 2009-10 on revenues from joint projects and cost sharing agreements demonstrate NRC's progress and additional resources dedicated to such projects over the previous fiscal year.

Expenses

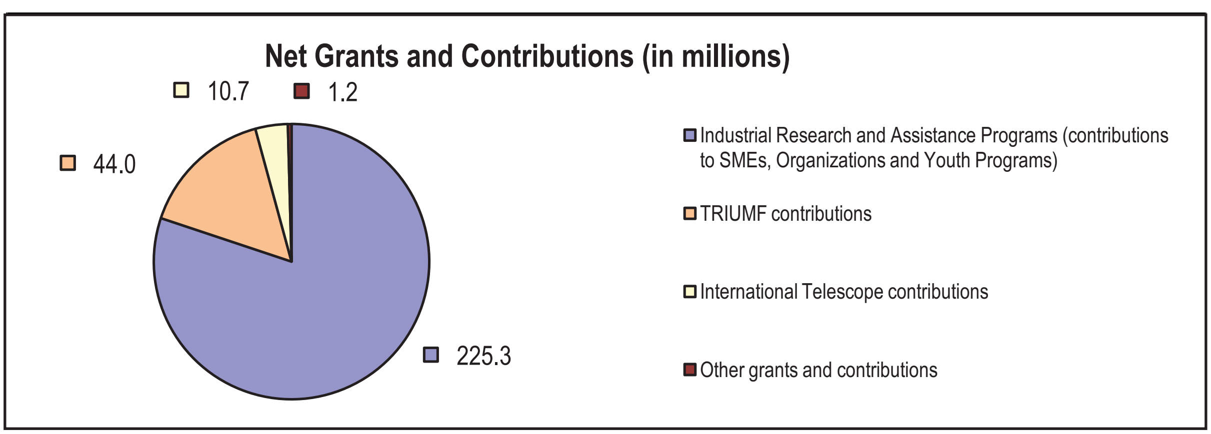
As noted in the Highlights section, NRC's expenses increased from $899.4 million in 2008-09 to $1.033 billion in 2009-10. The two major categories of expenses are salaries and employee benefits (45% of total expenses in 2009-10, 51% in 2008-09) and grants & contributions (27% of total expenses in 2009-10, 15% in 2008-09).



Salaries and Employee Benefits: Salaries and employee benefits include such costs as gross salaries and wages, overtime pay, retroactive salary adjustments, employee entitlements and allowances, severance pay, pension and medical benefits. Total NRC salaries and employee benefits have increased by $5.2 million in 2009-10, from $463.1 million in 2008-09 to $468.3 million in 2009-10. As discussed in the Highlights section, the main cause of this increase is due to the employee collective bargaining agreements which increased NRC's overall salary wage envelope and increased employment benefit charges allocated to NRC in 2009-10 given that retroactive payments were provided during the year. NRC also recorded a non-recurring one-time charge for anticipated termination benefits as a result of NRC's 2008 Strategic Review. These elements were offset by a one-time retroactive pay charges for salaries in 2008-09, a decrease in employee severance benefits and the moratorium on external hiring implemented by NRC in 2009-10 to control expenditure growth.

Grants and Contributions*:* Grants and contributions increased significantly by $148.6 million in 2009-10, from $132.6 million in 2008-09 to $281.2 million in 2009-10. As mentioned in the Highlights section, this increase is directly related to additional contributions funding from Canada's Economic Action Plan which provided NRC with additional funds to support small and medium-sized enterprises with their innovation efforts through the NRC-IRAP.

The following chart illustrates NRC's net grants and contributions categorized by major program.



Utilities, Materials and Supplies: Utilities, materials and supplies include expenditures such as electricity, natural gas, serial renewals, electronic data processing (EDP) equipment with cost under $5,000, fuel, software, laboratory equipment and laboratory products. Utilities, material and supply costs decreased by $5.6 million from $89.6 million in 2008-09 to $84 million in 2009-10. The decrease primarily results from a $3.4 million decrease in natural gas expenses given reduced consumption and cost levels as well as a $1.1 million decrease in serial renewals due to cost reduction measures taken by NRC-CISTI and the strong CDN dollar.

Amortization: Tangible capital assets are expected to yield benefits over several accounting periods. As such, NRC's use of these assets to provide services is recognized on a straight-line basis over the estimated useful life of each asset class. This cost, which reached $67.9 million in 2009-10 ($69.4 million in 2008-09), is referred to as amortization.

Professional and Special Services: Professional and special services decreased by $6.1 million in 2009-10, from 60.1 million in 2008-09. The 10% decrease was mainly caused by the recognition of an environmental liability in 2008-09 in the amount of $4.1 million. As discussed in the accounts payable and accrued liabilities section, $2.3 million in restoration costs were incurred by NRC in 2009-10 to reduce previously recognized environmental liabilities. The remaining amount results from expenditure restraint measures implemented by NRC in 2009-10.

Transportation and Communication: Transportation and communication expenses decreased by $5.7 million in 2009-10, down from $30 million in 2008-09. The 19% decrease is mainly attributable to NRC's effort of reducing travel costs, achieving $5.5 million in cost avoidance in 2009-10. In addition to travel restrictions imposed internally, the 2009 Federal Budget imposed a two year travel expenditure ceiling, capped at 2008-09 levels, on all federal departments and agencies. The decrease in transportation and communication spending is expected to remain at lower levels in the future.

Repairs and Maintenance: NRC has a significant amount of tangible capital investments, such as buildings, facilities, and research equipment. The repair and maintenance costs incurred of $18.6 million in 2009-10 ($17.4 million in 2008-09) represent expenditures related with the maintenance of such assets. The increase of $1.2 million or 7% is mainly due to an increase in aircraft repair costs.

Bad Debts: NRC's bad debt expense decreased from $9.1 million in 2008-09 to $6 million in 2009-10. The decrease of $3.1 million is largely related to a decrease of $2.9 million in the allowance for doubtful accounts on outstanding receivables under the NRC-IRAP TPC program.

Other: Other expenses of $13.9 million ($13.5 million in 2008-09) include, but are not limited to rental charges of $4.9 million ($5.1 million in 2008-09), losses on disposal of tangible capital assets of $2.2 million ($1.1 million in 2008-09) and award costs of $3.1 million ($2.3 million in 2008-09).

NRC · CNRC

Financial Statements

National Research Council Canada

March 31, 2010

Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

To the National Research Council of Canada
and the Minister of Industry

I have audited the statement of financial position of the National Research Council of Canada (the Council) as at March 31, 2010 and the statements of operations, equity of Canada and cash flow for the year then ended. These financial statements are the responsibility of the Council's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Council 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.

Further, in my opinion, the transactions of the Council that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the *Financial Administration Act* and regulations, the *National Research Council Act* and regulations and the by-laws of the Council.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
June 11, 2010

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

National Research Council Canada

Statement of Management Responsibility

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2010 and all information contained in these statements rests with the National Research Council Canada's (NRC) management. These financial statements have been prepared by management in accordance with Treasury Board accounting policies and year-end instructions issued by the Office of the Comptroller General which are consistent with Canadian generally accepted accounting principles for the public sector.

Management is responsible for the integrity and objectivity of the information in these financial statements. Some of the information in the financial statements is based on management's best estimates and judgment and gives due consideration to materiality. To fulfill its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of NRC's financial transactions. Financial information submitted to the *Public Accounts of Canada* and included in NRC's *Departmental Performance Report* and *Annual Report* is consistent with these financial statements.

Management maintains a system of financial management and internal controls designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are in accordance with the *Financial Administration Act*, are executed in accordance with prescribed regulations, within Parliamentary authorities, and are properly recorded to maintain accountability of Government funds. Management also seeks to ensure the objectivity and integrity of data in its financial statements by careful selection, training and development of qualified staff, by organizational arrangements that provide appropriate divisions of responsibility, and by communication programs aimed at ensuring that regulations, policies, standards and managerial authorities are understood throughout NRC.

The role of the Audit Committee is to provide independent, objective, guidance and assurance on the adequacy of NRC's risk management, control and accountability process. In accordance with the Treasury Board Directive on Departmental Audit Committees, the Audit Committee has reviewed the financial statements with management and external auditors and discussed any significant issues and findings from the audit prior to recommending acceptance of the financial statements to the President and NRC's Council. The committee exercises active oversight of core areas of departmental control and accountability.

The financial statements of NRC have been audited by the Auditor General of Canada, the independent auditor for the Government of Canada.

John R. McDougall, P.Eng.
President

Daniel Gosselin, FCA
Vice-President Corporate Management
and Chief Financial Officer

Ottawa, Canada
June 11, 2010

National Research Council Canada
Statement of Financial Position
as at March 31

(in thousands of dollars)	2010	2009
ASSETS		
Financial Assets		
Due from the Consolidated Revenue Fund	197,426	189,296
Accounts receivable and advances (Note 4)	18,892	26,671
Inventory for resale	3,001	2,181
Equity investments (Note 5)	252	659
Endowment fund investments (Note 6)	4,515	4,419
	224,086	223,226
Non-Financial Assets		
Prepaid expenses	10,344	12,100
Inventory for consumption	3,409	2,855
Tangible capital assets (Note 7)	579,084	583,132
	592,837	598,087
TOTAL ASSETS	**816,923**	**821,313**
LIABILITIES AND EQUITY OF CANADA		
Liabilities		
Accounts payable and accrued liabilities (Note 8)	144,332	128,762
Vacation pay and compensatory leave	43,032	48,936
Deferred revenue (Note 9)	79,507	77,170
Lease obligation for tangible capital assets (Note 10)	277	-
Employee future benefits (Note 11)	69,004	75,075
	336,152	329,943
Equity of Canada	480,771	491,370
TOTAL LIABILITIES AND EQUITY OF CANADA	**816,923**	**821,313**

Contingent liabilities (Note 12)
Contractual obligations (Note 13)

The accompanying notes form an integral part of these financial statements.

Approved by:

John R. McDougall, P.Eng.
President

Daniel Gosselin, FCA
Vice-President Corporate Management and
Chief Financial Officer

National Research Council Canada
Statement of Operations
for the year ended March 31

(in thousands of dollars)	**2010**	**2009**
Expenses (Note 14)		
Research and development	576,253	576,273
Technology and Industry support	341,554	198,491
Internal Services	114,845	124,666
	1,032,652	899,430
Revenues (Note 15)		
Research and development	124,265	128,037
Technology and Industry support	35,015	20,828
Internal Services	10,347	7,381
	169,627	156,246
Net Cost of Operations	**863,025**	**743,184**

The accompanying notes form an integral part of these financial statements.

National Research Council Canada
Statement of Equity of Canada
for the year ended March 31

(in thousands of dollars)	**2010**	**2009**
Equity of Canada, beginning of year	491,370	540,815
Net cost of operations	(863,025)	(743,184)
Net cash provided by Government (Note 3)	809,673	678,916
Change in due from the Consolidated Revenue Fund	8,130	(15,468)
Services provided without charge (Note 16)	34,623	30,291
Equity of Canada, end of year	480,771	491,370

The accompanying notes form an integral part of these financial statements.

National Research Council Canada
Statement of Cash Flow
for the year ended March 31

(in thousands of dollars)	**2010**	**2009**
Operating Activities		
Net cost of operations	863,025	743,184
Non-cash items		
Amortization of tangible capital assets	(67,879)	(69,434)
Write-down of contributed lease	-	(4,136)
Gain on sale of equity investments	2,969	-
Net loss on disposal of tangible capital assets	(2,221)	(1,057)
Services provided without charge (Note 16)	(34,623)	(30,291)
Other	143	730
Variations in Statement of Financial Position		
Decrease in accounts receivable and advances	(7,779)	(693)
Increase (decrease) in inventory for resale	820	(147)
Increase in equity investment	-	14
Increase in endowment fund investments	96	109
Decrease in prepaid expenses	(1,756)	(1,534)
Increase in inventory for consumption	554	410
Increase in liabilities	(6,209)	(19,546)
Cash used by operating activities	747,140	617,609
Capital Investment Activities		
Acquisitions of tangible capital assets	66,867	62,567
Acquisitions not affecting cash and transfers to inventory for resale	(676)	-
Proceeds from disposal of tangible capital assets	(282)	(1,260)
Cash used by capital investment activities	65,909	61,307
Investing Activities		
Proceeds from sale of equity investments	(3,376)	-
Cash provided by investing activities	(3,376)	-
Financing Activities		
Net cash provided by Government of Canada (Note 3)	(809,673)	(678,916)

The accompanying notes form an integral part of these financial statements.

National Research Council Canada
Notes to Financial Statements
Year ended March 31, 2010

1. Authority and Objectives

The National Research Council Canada (NRC) exists under the *National Research Council Act* and is a departmental corporation named in Schedule II of the *Financial Administration Act*. The objectives of NRC are to create, acquire and promote the application of scientific and engineering knowledge to meet Canadian needs for economic, regional and social development and to promote and provide for the use of scientific and technical information by the people and the Government of Canada.

In delivering its mandate, NRC reports under the following program activities:

- research and development
- technology and industry support; and
- internal services.

These program activities also include NRC's priorities of enhancing development of sustainable technology clusters for wealth creation and social capital as well as program management for a sustainable organization.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Treasury Board accounting policies and year-end instructions issued by the Office of the Comptroller General, which are consistent with Canadian generally accepted accounting principles for the public sector. The significant accounting policies are:

a) Parliamentary appropriations

NRC is financed mainly by the Government of Canada through Parliamentary appropriations. Appropriations provided to NRC do not parallel financial reporting according to Canadian generally accepted accounting principles since appropriations are primarily based on cash flow requirements. Consequently, items recognized in the statement of operations and the statement of financial position are not necessarily the same as those provided through appropriations from Parliament. Note 3 provides a high-level reconciliation between the bases of reporting.

b) Net cash provided by Government

NRC operates within the Consolidated Revenue Fund, which is administered by the Receiver General for Canada. All cash received by NRC is deposited to the Consolidated Revenue Fund and all cash disbursements made by NRC are paid from the Consolidated Revenue Fund. The net cash provided by Government is the difference between all cash receipts and all cash disbursements including transactions between departments (including agencies) of the federal government.

c) Due from the Consolidated Revenue Fund

Due from the Consolidated Revenue Fund represents the amount of cash that NRC is entitled to draw from the Consolidated Revenue Fund without further appropriations in order to discharge its liabilities.

d) Revenues / Deferred revenue

- Revenue is recognized in the year in which the underlying transaction or event occurred that gave rise to revenue.
- Revenue from license fees, joint research projects and other sources is deposited to the Consolidated Revenue Fund and is available for use by NRC.
- License fees received for future year license periods are recorded as deferred revenue and amortized over the license period.
- Funds received from third parties for specified purposes are recorded upon receipt as deferred revenue and recognized as revenue in the year in which the related expenses are incurred.
- Contributions of leased tangible capital assets are deferred and amortized to operations on the same basis as the related depreciable tangible capital assets.

e) Expenses

- Grants are recognized in the year in which the conditions for payment are met. In the case of grants which do not form part of an existing program, the expense is recognized when the Government announces a decision to make a non-recurring transfer, provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the financial statements.
- Contributions are recognized in the year in which the recipient has met the eligibility criteria or fulfilled the terms of a contractual transfer agreement.
- Vacation pay and compensatory leave are expensed as the benefits accrue to employees under their respective terms of employment.
- Services provided without charge from other government departments and agencies are recorded as operating expenses at their estimated cost and credited directly to equity.

f) Employee future benefits

i) Pension Benefits

Eligible employees participate in the Public Service Pension Plan, a multiemployer plan administered by the Government of Canada. NRC's contributions to the Plan are charged to expense in the year incurred and represent NRC's total obligation to the Plan. Current legislation does not require NRC to make contributions for any actuarial deficiencies of the Plan.

ii) Severance Benefits

Employees are entitled to severance benefits under labour contracts or conditions of employment. These benefits are accrued as employees render the services necessary to earn them. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

g) Accounts receivable

Accounts receivable are stated at amounts expected to be ultimately realized; a provision is made for receivables where recovery is considered uncertain.

h) Conditionally repayable contributions

Conditionally repayable contributions are contributions that, all or part of which become repayable, if conditions specified in the contribution agreement come into effect. Accordingly, they are not recorded on the Statement of Financial Position until the conditions specified in the agreement are satisfied at which time they are then recorded as a receivable and a reduction in transfer payment expenses. An estimated allowance for uncollectibility is recorded where appropriate.

i) Contingent liabilities

Contingent liabilities are potential liabilities, which may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

j) Environmental liabilities

Environmental liabilities reflect the estimated costs related to the management and remediation of environmentally contaminated sites. Based on management's best estimates, a liability is accrued and an expense recorded when the contamination occurs or when NRC becomes aware of the contamination and is obligated, or is likely to be obligated to incur such costs. If the likelihood of NRC's obligation to incur these costs is either not determinable or an amount cannot be reasonably estimated, the costs are disclosed as contingent liabilities in the notes to the financial statements.

k) Inventories

Inventory for resale and for consumption is recorded at the lower of cost (using the average cost method) or net realizable value. The cost is charged to operations in the year in which the items are sold or used.

l) Equity investments

Equity investments include shares in publicly and privately held companies. Equity investments are typically obtained as a result of debt settlement negotiations or as a result of non-monetary transactions (where financial assistance at better-than-market conditions was provided to firms through access to intellectual property, equipment and incubation space in laboratories). If the estimates of the non-monetary transactions cannot be determined, the equity investments are initially recorded at a nominal value. Otherwise they are initially recorded at fair value based on market prices. If the fair value of equity investments becomes lower than the book value and this decline in value is considered to be other than temporary, the equity investments are written down to fair value.

m) Endowment fund investments

Endowments consist of restricted donations subject to externally imposed restrictions stipulating that the resources be maintained permanently. Income from the investment of endowments may only be used for the purposes established by the donors.

Endowments are recognized as an asset when the amount to be received can be reasonably estimated and ultimate collection is reasonably assured.

Funds received for endowments are invested in bonds and are carried at amortized cost. The premium or discount determined at the time of acquisition is amortized until the security's maturity. Fair value of bonds is based on market prices.

n) Foreign currency transactions

Transactions involving foreign currencies are translated into Canadian dollar equivalents using rates of exchange in effect at the time of those transactions. Monetary assets and liabilities denominated in foreign currencies are translated using rates at year end. Gains and losses resulting from foreign currency translation are reported on the Statement of Operations according to the activities to which they relate. Net gains and losses relating to the sale of goods or services in foreign currency are included in revenues. Net gains and losses relating to the purchase of goods or services in foreign currency are included in expenses. Contractual obligations may contain foreign currencies that are translated into Canadian dollar equivalents.

o) Tangible capital assets and amortization

Tangible capital assets and leasehold improvements having an initial cost of $5,000 or more are recorded at their acquisition cost. Contributed tangible capital assets are recorded at market value at the date of contribution. NRC does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value. Assets acquired under tangible capital leases are initially recorded at the lower of the present value of the minimum lease payments at the inception of the lease or fair value. Tangible capital assets held for sale are recorded at the lower of their carrying value or fair value less cost to sell and no amortization is recorded. Amortization of tangible capital assets is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Asset Class	**Amortization Period**
Land	Not applicable
Buildings and facilities	25 years
Works and infrastructure	25 years
Machinery, equipment and furniture	10 years
Informatics equipment	5 years
Informatics software	5 years
Vehicles	5 years
Aircraft	10 years
Leasehold improvements	Lesser of the remaining term of the lease or useful life of the improvement
Assets under construction	Once in service, in accordance with asset class
Leased tangible capital assets	In accordance with asset class

Where NRC enters into land leases at a nominal value, the transaction is considered as a non-monetary transaction and is recorded at fair value. Fair value of the transaction is based on market prices. If the estimates of the non-monetary transactions cannot be determined, the amount of the transaction is recorded at a nominal value.

p) Measurement uncertainty

The preparation of these financial statements in accordance with Treasury Board accounting policies and year-end instructions issued by the Office of the Comptroller General, which are consistent with Canadian generally accepted accounting principles for the public sector requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are contingent liabilities, environmental liabilities, the liability for employee severance benefits, the allowance for doubtful accounts, the fair value of non-monetary transactions related to leased tangible capital assets and the useful life of tangible capital assets. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

q) Asset retirement obligations

Liabilities are recognized for statutory, contractual or legal obligations, when incurred, associated with the retirement of tangible capital assets when those obligations result from the acquisition, construction, development or normal operation of the assets. The obligations are measured initially at fair value, determined using present value methodology, and the resulting costs capitalized into the carrying amount of the related asset. In subsequent periods, the liability is adjusted for the accretion of discount and any changes in the amount or timing of the underlying future cash flows. The capitalized asset retirement cost is depreciated on the same basis as the related asset and the discount accretion is included in determining the results of operations.

3. Parliamentary Appropriations

NRC receives most of its funding through annual Parliamentary appropriations. Items recognized in the Statement of Operations and the Statement of Financial Position in one year may be funded through Parliamentary appropriations in prior, current or future years. Accordingly, NRC has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

a) Reconciliation of net cost of operations to current year appropriations used

(in thousands of dollars)	**2010**	**2009**
Net Cost of Operations	863,025	743,184
Adjustments for items affecting net cost of operations but not affecting appropriations:		
Revenues	169,627	156,246
Financial arrangements with other Federal Government departments and agencies	(70,266)	(46,115)
Amortization of tangible capital assets	(67,879)	(69,434)
Services provided without charge (Note 16)	(34,623)	(30,291)
Specified purpose accounts expenses	(16,491)	(13,591)
Decrease (increase) in salary accrual	8,978	(14,795)
Decrease (increase) in employee future benefits	6,071	(13,951)
Decrease (increase) in vacation pay and compensatory leave	5,904	(8,786)
Loss on disposal of tangible capital assets	(2,221)	(1,057)
Refunds of previous year's expenditures	1,362	1,804
Cost of goods sold	(696)	(559)
Bad debt expense	(689)	(412)
Decrease (increase) in litigation claim expense accrual	675	(39)
Other	596	(493)
Decrease (increase) in accrued liability	309	(641)
Increase in environmental liabilities	(30)	(4,050)
(Decrease) increase in inventory	(9)	83
Total items affecting net cost of operations but not affecting appropriations	618	(46,081)
Adjustments for items not affecting net cost of operations but affecting appropriations:		
Acquisitions of tangible capital assets and additions to assets under construction	65,565	61,622
Environmental remediation reducing the liability	2,299	-
Decrease in prepaid expenses	(1,756)	(1,534)
Inventory purchases	1,204	739
Decrease in lease obligations for tangible capital assets	59	-
Total items not affecting net cost of operations but affecting appropriations	67,371	60,827
Current year appropriations used	931,014	757,930

b) Reconciliation of Parliamentary appropriations provided to current year appropriations used

(in thousands of dollars)	**2010**	**2009**
Parliamentary appropriations provided:		
Vote 50 – Operating expenditures	438,567	433,813
Vote 55 – Capital expenditures	52,597	49,839
Vote 60 – Grants and contributions	274,579	143,957
Statutory amounts:		
Revenues pursuant to paragraph 5(1)(e) of the *National Research Council Act*	155,956	156,648
Contributions to employee benefit plans	67,902	56,460
Proceeds from the disposal of surplus Crown assets	441	290
Losses on foreign exchange	-	271
Collection agency fees	27	34
Less:		
Revenues available for use in subsequent years	(46,009)	(69,587)
Lapsed appropriations:		
Frozen allotments	(9,463)	(11,625)
Unexpended appropriations	(3,583)	(2,170)
Current year appropriations used	931,014	757,930

c) Reconciliation of net cash provided by Government to current year appropriations used

(in thousands of dollars)	**2010**	**2009**
Net cash provided by government	809,673	678,916
Adjustments for items not affecting appropriations:		
Revenues	169,627	156,246
Expenditures	(60,706)	(101,015)
Write-down of contributed lease	-	4,136
Decrease in accounts receivable and advances	7,779	693
Increase in equity investment	-	(14)
Increase in endowment fund investments	(96)	(109)
(Increase) decrease in inventory	(170)	476
Increase in tangible capital assets and leases	(1,302)	(945)
Increase in liabilities	6,209	19,546
Total items not affecting appropriations	121,341	79,014
Current year appropriations used	931,014	757,930

4. Accounts Receivable and Advances

(in thousands of dollars)	**2010**	**2009**
Accounts receivable from external parties	15,443	21,738
Accounts receivable from other Federal Government departments and agencies	2,309	3,817
Employee advances	40	48
	17,792	25,603
Less: allowance for doubtful accounts on external accounts receivable	(856)	(804)
	16,936	24,799
Repayable contributions	10,586	13,434
Less: allowance for uncollectibility	(8,630)	(11,562)
Net repayable contributions	1,956	1,872
Total	18,892	26,671

5. Equity Investments

Equity investments include shares in publicly and privately held companies. It is not management's intention to hold equity investments over the long-term. NRC will consider timely opportunities for divestiture of equity investments by taking into account the interests, market liquidity and expected future growth of the company. Of all portfolio investments where NRC holds an equity position, four were for debt settlements for a total value of $115,873 (seven valued at $698,654 in 2009) and sixteen were obtained by non-monetary transactions (eighteen in 2009), of which nine (nine in 2009) are inactive or have filed for bankruptcy. Estimates of the non-monetary transactions cannot be determined, as the value of the financial assistance is highly speculative.

During the year, NRC sold shares for $3,376,391 realising a gain of $2,968,969.

The book value and fair value of the equity investments as at March 31, 2010 were $252,076 and $171,967 respectively ($659,498 and $2,204,474 in 2009).

6. Endowment Fund Investments

This account was established pursuant to paragraph 5(1)(f) of the *National Research Council Act* to record the residue of the estate of the late H.L. Holmes. Up to two thirds of the endowment fund's yearly net income is used to finance the H.L. Holmes award on an annual basis. The award provides the opportunity to post-doctoral students to study at world famous graduate schools or research institutes under outstanding researchers.

(in thousands of dollars)	**2010**	**2009**
Restricted cash and investments, beginning of year	4,419	4,310
Net income from endowment	213	208
Awards granted	(117)	(99)
Restricted cash and investments, end of year	4,515	4,419

The portfolio had an average effective return of 5.07% (4.47% in 2009) and an average term to maturity of 5.52 years as at March 31, 2010 (5.42 years as at March 31, 2009). The fair value of the endowment investments as at March 31, 2010 was $4,653,482 ($4,629,416 in 2009).

7. Tangible Capital Assets

(in thousands of dollars)

	Cost				Accumulated amortization					
Tangible capital asset class	Opening balance	Acquisitions	Transfers, disposals and write-offs	Closing balance	Opening balance	Amortization	Transfers, disposals and write-offs	Closing balance	2010 Net book value	2009 Net book value
Land	9,879	-	-	9,879	-	-	-	-	9,879	9,879
Buildings and facilities	641,101	8,437	6,332	655,870	(364,399)	(22,443)	(7)	(386,849)	269,021	276,702
Works and infrastructure	20,553	1,122	7	21,682	(13,725)	(732)	-	(14,457)	7,225	6,828
Machinery, equipment and furniture	497,753	26,252	(11,003)	513,002	(318,222)	(33,184)	15,732	(335,674)	177,328	179,531
Informatics equipment	62,902	3,723	(2,997)	63,628	(50,004)	(4,550)	2,744	(51,810)	11,818	12,898
Informatics software	22,046	2,698	(2,977)	21,767	(13,503)	(3,355)	3,560	(13,298)	8,469	8,543
Vehicles	3,121	165	(116)	3,170	(2,252)	(254)	99	(2,407)	763	869
Aircraft	11,272	22	-	11,294	(9,588)	(278)	-	(9,866)	1,428	1,684
Leasehold improvements	12,408	400	-	12,808	(2,671)	(535)	-	(3,206)	9,602	9,737
Assets under construction	23,323	24,048	(14,410)	32,961	-	-	-	-	32,961	23,323
Leased tangible capital assets	63,700	-	-	63,700	(10,562)	(2,548)	-	(13,110)	50,590	53,138
Total	1,368,058	66,867	(25,164)	1,409,761	(784,926)	(67,879)	22,128	(830,677)	579,084	583,132

Amortization expense for the year ended March 31, 2010 is $67,879,472 ($69,434,215 in 2009).

At March 31, 2010, NRC held eight land lease agreements (eight in 2009) for a nominal annual cost of one dollar with universities. In these instances, NRC owns the building on the leased land. The fair value of the land leases for these non-monetary transactions could not be determined at the inception of the lease therefore they are recorded at a nominal value.

On March 21, 1996, NRC entered into a non-monetary transaction consisting of a lease agreement with the University of Western Ontario for the relocation of the Integrated Manufacturing Technologies Institute (IMTI), whereby leased property was provided to NRC for twenty-five years at a nominal cost of one dollar. Since the inception of the lease agreement, IMTI was restructured under NRC's Industrial Materials Institute (IMI) and NRC's Institute for Research in Construction. NRC has no obligations to the University of Western Ontario other than the relocation of the institute. The property was recorded as a leased tangible capital asset at its fair value of $10,000,000. The annual amortization of $400,000 for the leased tangible capital asset is exactly offset by the amortization of the deferred contribution related to the leased property.

On May 23, 2006, NRC took possession of a new facility and entered into a non-monetary transaction with the University of Alberta. NRC entered into a lease agreement with the University for the housing of NRC's National Institute for Nanotechnology (NINT), whereby leased property is provided to NRC at a nominal cost of one dollar per year. The lease provides a one year term with options to renew on ten sequential occasions, each of the first nine renewals to be for a period of five years and the tenth renewal for a period of four years. The building was recorded as a leased tangible capital asset at its fair value of $44,400,000. The annual amortization of $1,776,000 for the leased tangible capital asset is exactly offset by the amortization of the deferred contribution related to the leased building.

On September 1, 2006, NRC took possession of a new facility and entered into a non-monetary transaction with the University of Prince Edward Island. NRC entered into a lease agreement with the University for the housing of NRC's Institute for Nutrisciences and Health (INH), whereby leased property was provided to NRC at a nominal cost of one dollar per year. The lease provides a nineteen month term with renewal options for seven additional periods of five years, and one additional period of three years and five months (to August 31, 2046). The building was recorded as a leased tangible capital asset at its fair value of $9,300,000. The annual amortization of $372,000 for the leased tangible capital asset is exactly offset by the amortization of the deferred contribution related to the leased building.

8. Accounts Payable and Accrued Liabilities

(in thousands of dollars)	**2010**	**2009**
Suppliers and contributions payable	104,421	78,824
Payable to other Federal Government departments and agencies	25,641	14,194
Accrued salaries, wages and employee benefits	11,495	30,629
Environmental liabilities	1,880	4,150
Contractor holdbacks	814	909
Sales tax payable	81	56
Total	144,332	128,762

9. Deferred Revenue

(in thousands of dollars)	**2010**	**2009**
Deferred revenue – contributions related to leased tangible capital assets		
Balance, beginning of year	53,138	59,822
Write-down of contributed tangible capital lease	-	(4,136)
Contributions recognized as revenue	(2,548)	(2,548)
Balance, end of year	50,590	53,138
Deferred revenue - specified purpose accounts		
Balance, beginning of year	17,060	14,504
Funds received	22,271	18,779
Revenue recognized	(18,713)	(16,223)
Balance, end of year	20,618	17,060
Deferred revenue - other		
Balance, beginning of year	6,972	6,920
Funds received	8,868	6,541
Revenue recognized	(7,541)	(6,489)
Balance, end of year	8,299	6,972
Total	79,507	77,170

10. Lease obligation for tangible capital assets

NRC has entered into agreement during the year to lease mechanical test equipment under capital lease with a cost of $336,000 and accumulated amortization of $0 as at March 31, 2010. The obligations related to the upcoming years include the following:

(in thousands of dollars)	**2010**	**2009**
2011	80	-
2012	80	-
2013	80	-
2014	80	-
2015 and thereafter	-	-
Total future minimum lease payments	320	-
Less: imputed interest (6.11%)	(43)	-
Balance of obligations under leased tangible capital assets	277	-

11. Employee Future Benefits

Employees of NRC are entitled to specific benefits on or after termination or retirement, as provided for under various collective agreements or conditions of employment.

a) Pension benefits

NRC and all eligible employees participate in the Public Service Pension Plan, which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum of 35 years at a rate of two percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Quebec Pension Plans benefits and they are indexed to inflation.

Both the employees and NRC contribute to the cost of the Plan. The expense amounts to $49,024,953 ($40,763,601 in 2009) as at March 31, 2010 which represents approximately 1.9 times (2.0 times in 2009) the contributions by employees.

NRC's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.

b) Employee severance benefits

NRC provides severance benefits to its employees based on eligibility, years of service and final salary. These severance benefits are not pre-funded. Benefits will be paid from future appropriations. Information about the severance benefits, measured as at March 31, is as follows:

(in thousands of dollars)	**2010**	**2009**
Accrued benefit obligation, beginning of year	75,075	61,124
(Decrease) increase of the accrued expense for the year	(965)	17,759
Benefits paid during the year	(5,106)	(3,808)
Accrued benefit obligation, end of year	69,004	75,075

12. Contingent Liabilities

a) Environmental liabilities

Liabilities are accrued to record the estimated costs related to the management and remediation of contaminated sites where NRC is obligated or likely to be obligated to incur such costs. NRC has identified two sites (two sites in 2009) where such action is possible and for which a liability of $1,880,195 ($4,150,000 in 2009) has been recorded. NRC has estimated additional clean-up costs on six additional sites for which it may be potentially liable of $1,055,000. These costs are not accrued as NRC's obligation to incur these costs is not determinable. The estimate has been prepared using current market rates and is based on the results of initial testing performed by NRC on suspected sites. NRC's ongoing efforts to assess contaminated sites may result in additional environmental liabilities related to newly identified sites, or changes in the assessments or intended use of existing sites. These liabilities will be accrued by NRC in the year in which they become known.

b) Claims and litigation

Claims have been made against NRC in the normal course of operations. Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fails to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded in NRC's financial statements.

As at March 31, 2010, NRC had eleven claims (thirteen in 2009) outstanding of which one (two in 2009) related to pending charges that will likely result in a liability and two where the outcome is undeterminable (one in 2009). The one claim that will likely result in a liability can be reasonably estimated (two in 2009). A total accrued liability of $375,000 ($1,327,754 in 2009) was recorded based on NRC's legal assessment of potential liability.

c) Asset Retirement Obligations

As at March 31, 2010 NRC has recognized an asset retirement obligation of $221,000 ($216,000 in 2009) in the financial statements as a result of its legal obligation to retire storage tank systems for petroleum products and allied petroleum products. The undiscounted amount of expected future cash flows required to settle the asset retirement obligation is estimated at $463,000 ($472,000 in 2009). The liability for the expected future cash flows, as reflected in the financial statements, has been discounted at a weighted average of 4.74% (4.74% in 2009) based on the Government of Canada benchmark bonds. This obligation will be settled over the useful lives of the operating assets. The following table summarizes the changes in the asset retirement obligations:

(in thousands of dollars)	**2010**	**2009**
Asset retirement obligations, beginning of year	216	-
Accretion of asset retirement obligations	5	-
Obligations incurred	-	216
Asset retirement obligations, end of year	221	216

Other asset retirement obligations, such as the costs associated with the removal and disposal of asbestos and other designated substances located in NRC buildings have not been recognized in the financial statements due to the fact that they are subject to several uncertainties. NRC generally incurs the cost of removing and disposing regulated substances during major building renovations; consequently the timing and scope of these renovations cannot be reasonably estimated at this time and therefore fair values cannot be reasonably determined. Changes in these assumptions and uncertainties could materially affect NRC's assets and liabilities as well as the resulting amortization and accretion expenses related to the asset retirement obligation.

13. Contractual Obligations

The nature of NRC's activities can result in some large multi-year contracts and obligations whereby NRC will be obligated to make future payments when the services/goods are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

(in thousands of dollars)	**2011**	**2012**	**2013**	**2014**	**2015 and thereafter**	**Total**
Transfer payments	149,937	19,110	7,858	4,527	4,676	186,108
Operating contracts	30,342	5,303	2,090	1,097	-	38,832
Total	180,279	24,413	9,948	5,624	4,676	224,940

14. Expenses

The following table presents the detail of expenses by category:

(in thousands of dollars)	**2010**	**2009**
Salaries and employee benefits	468,288	463,104
Grants and contributions	281,230	132,592
Utilities, materials and supplies	84,020	89,555
Amortization	67,879	69,434
Professional and special services	53,952	60,085
Transportation and communication	24,308	30,040
Repairs and maintenance	18,553	17,431
Payments in lieu of taxes	14,475	14,628
Bad debts	6,032	9,061
Rentals	4,917	5,071
Awards	3,104	2,343
Information	2,971	4,425
Net loss on disposal of tangible capital assets	2,221	1,057
Cost of goods sold	696	559
Other	6	45
Total	1,032,652	899,430

15. Revenues

The following table presents details of revenues by category:

(in thousands of dollars)	**2010**	**2009**
Sales of goods and services		
Services of non-regulatory nature and other fees and charges	49,611	65,636
Sales of goods and information products	11,690	11,281
Rights and privileges	8,923	9,591
Lease and use of property	4,449	4,261
	74,673	90,769
Financial arrangements with other Federal Government departments and agencies	70,266	46,115
Revenues from joint project and cost sharing agreements	18,714	16,223
Gain on sale of equity investment	2,969	-
Lease inducement revenue	2,548	2,548
Other	457	540
Donations and bequest	-	51
Total	169,627	156,246

16. Related Party Transactions

NRC is related as a result of common ownership to all Government of Canada departments, agencies, and Crown corporations. NRC enters into transactions with these entities in the normal course of business and on normal trade terms. Refer to Note 4 and Note 8 for accounts receivable and payable to other Federal Government departments and agencies. Also, during the year, NRC received services, which were obtained without charge from other Federal Government departments and agencies. These services without charge have been recognized in NRC's Statement of Operations as follows:

(in thousands of dollars)	**2010**	**2009**
Employer's contributions to the health and dental insurance plans provided by Treasury Board	33,022	28,675
Audit services provided by the Office of the Auditor General of Canada	501	513
Legal services provided by Justice Canada	454	431
Workers' compensation benefits provided by Human Resources and Social Development Canada	302	325
Payroll services provided by Public Works and Government Services Canada	192	196
Accommodation provided by Public Works and Government Services Canada	152	151
Total	34,623	30,291

The total of legal services provided by Justice Canada amounts to $1,233,055 ($1,207,456 in 2009). Of this amount, $454,135 ($430,820 in 2009) was provided without charge. The total of accommodation provided by Public Works and Government Services Canada amounts to $330,083 ($322,015 in 2009). Of this amount, $151,805 ($151,111 in 2009) was provided without charge. The total of Workers' compensation benefits provided by Human Resources and Social Development Canada amounts to $747,512 ($840,094 in 2009). Of this amount, $302,261 ($325,330 in 2009) was provided without charge.

17. Financial Instruments

NRC's financial instruments consist of accounts receivable and advances, investments and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that NRC is not exposed to significant interest, currency or credit risk arising from these financial instruments. Unless otherwise disclosed in these financial statements, management estimates that the carrying values of the financial instruments approximate their fair value due to their impending maturity.

18. Comparative Information

Comparative figures have been reclassified to conform to the current year's presentation.