NRC·CNRC National Research Council Canada

Annual Report
2012-2013

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 consolidated financial statements and accompanying notes for the National Research Council of Canada (NRC) for the fiscal year ended March 31, 2013.

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), and information on its plans and priorities is available in the NRC Report on Plans and Priorities (RPP).

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. 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.

Overview

The National Research Council (NRC) was established by the *National Research Council Act*. The mission of NRC is to work with clients and partners to provide strategic research, scientific and technical services to develop and deploy solutions to meet Canada's current and future industrial and societal needs.

NRC's budget is allocated through authorities approved by Parliament, and some of NRC's operations are funded through revenue generated from external parties. NRC has separate voted authorities for operating expenditures, capital expenditures and grants and contributions. In addition, NRC has statutory authority for spending of revenues (pursuant to paragraph 5(1)(e) of the *National Research Council Act*), contributions to employee benefit plans, proceeds from the disposal of surplus Crown assets, collection agency fees and loss on foreign exchange.

Authorities provided to NRC do not parallel financial reporting according to Canadian public sector accounting standards, since authorities are primarily based on cash accounting principles. Consequently, items recognized in the Consolidated Statement of Operations and Departmental Net Financial Position and the Consolidated Statement of Financial Position are not necessarily the same as those provided through authorities from Parliament. Note 3 of the Consolidated Financial Statements provides a reconciliation between the two bases of reporting.

Reporting Entity

These consolidated financial statements include a portion of the accounts of the Canada-France-Hawaii Telescope Corporation (CFHT). In 2011-12, NRC determined that its relationship with CFHT constituted a government partnership for accounting purposes and should be proportionately consolidated in NRC's financial statements. Further details are described in Note 2b of NRC's consolidated financial statements.

HIGHLIGHTS

Consolidated Statement of Financial Position

NRC's financial position, as shown by the Departmental net financial position line in the Consolidated Statement of Financial Position, was strengthened to $565.8 million as at March 31, 2013, from $525.2 million in 2012. NRC's total net liabilities as of March 31, 2013 were $321 million, an increase of $53.9 million from 2012. Net financial assets totalled $326.9 million, an increase of $110.5 million from 2012.

NRC had a departmental net surplus of $5.9 million, an improvement of $56.6 million from the previous year's debt position of $50.8 million. Departmental net surplus represents NRC's total net liabilities, less its total net financial assets. It is a measure of future income required to pay for past transactions and events.

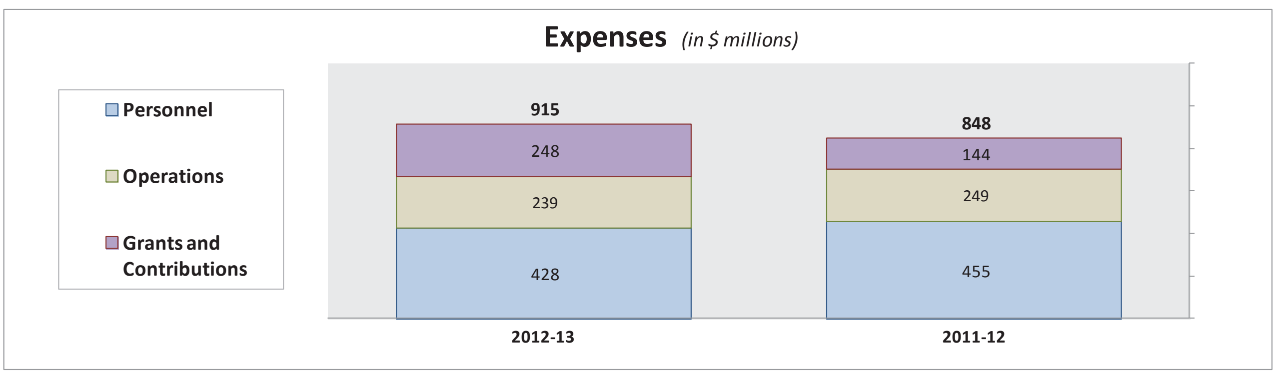
Detailed explanation and analysis of liability and asset balances can be found in the *Variance and Trend Analysis* section.

Consolidated Statement of Operations and Departmental Net Financial Position

NRC's 2012-13 net cost from continuing operations was $759.8 million compared to $676.7 million in 2011-12. Total revenue of $155.3 million represents a $15.6 million decrease from the prior year while expenses increased by $67.4 million to $915 million.

Additional parliamentary funding provided a $104.1 million increase in Grants and Contributions expenses. Most other expense categories saw a decrease. NRC's $40.5 million net surplus from operations after government funding and transfers ($10.4 million in 2011-12) caused the Departmental net financial position to grow from $525.2 million to $565.8 million.

The following illustrates NRC's total expenses by major category over the past two fiscal years:



For further detail and analysis of revenues and expenses, refer to the section *Variance and Trend Analysis* below.

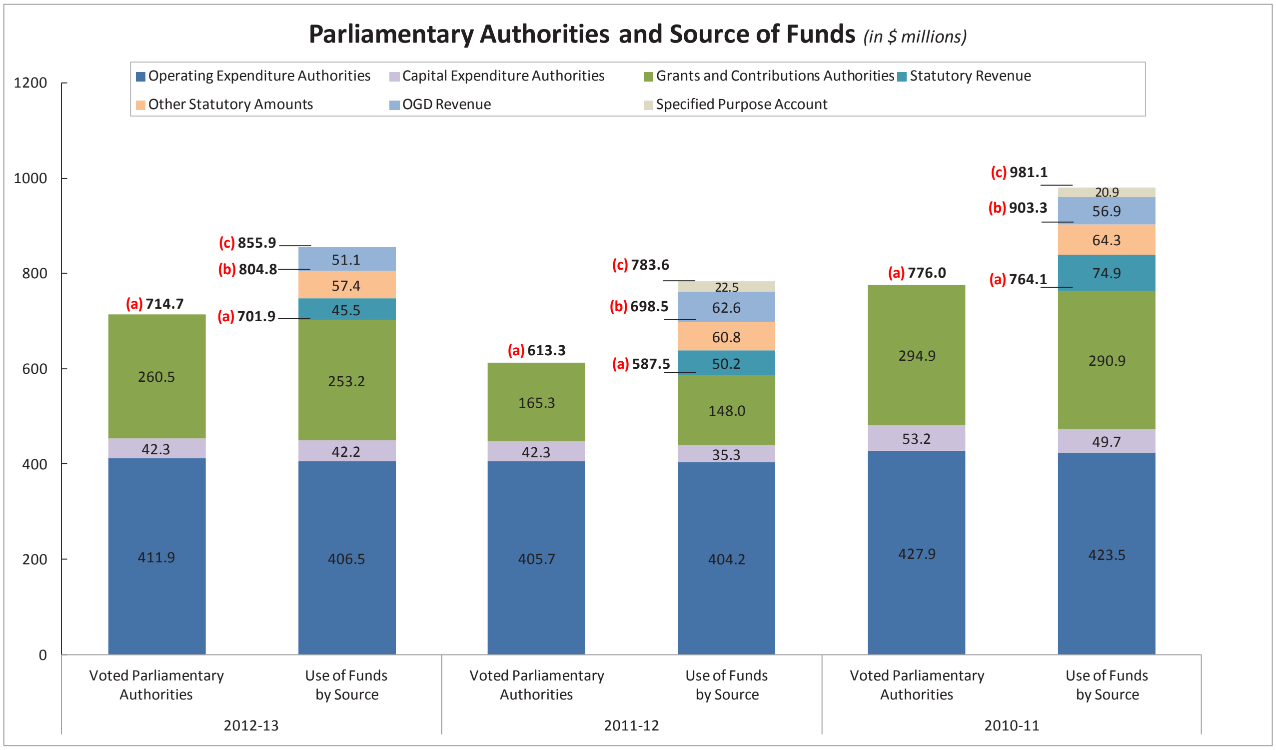
Consolidated Statement of Cash Flow

The net cash provided by the Government of Canada in 2012-13 was $647.4 million ($657.9 million in 2011-12). Cash used in operating activities declined by $12.3 million and cash used in investing activities declined by $0.4 million. These reductions were offset by a $2.2 million increase in cash used in capital investing activities.

Parliamentary Authorities

Parliamentary authorities are primarily based on cash accounting principles. They are shown in Note 3 of the NRC consolidated financial statements.

The following illustrates NRC's voted parliamentary authorities over the past three fiscal years, including the Main Estimates, the Supplementary Estimates, Transfers, Adjustments and Warrants. The *"Use of Funds by Source"* figures also include the statutory expenditures.



a) Total Voted Parliamentary Authorities: NRC is provided with Parliamentary Authorities in three Votes: Vote 60 – Operating expenditures, Vote 65 – Capital expenditures, and Vote 70 – Grants and contributions.

b) Total Authorities Used: The total authorities used during the year (and shown in Note 3 of NRC's consolidated financial statements). These include voted authorities and statutory authorities.

c) Total Funds Spent: All authorities, as well as NRC spending of funds from Other Government Departments and Specified Purpose Accounts.

In 2012-13, available parliamentary authorities increased by $101.4 million, including an additional $90 million in grants and contributions funding received to expand NRC's Industrial Research Assistance Program (IRAP), as announced in Canada's Economic Action Plan 2012.

NRC's actual use of funds applied to Voted parliamentary authorities totalled $701.9 million. In addition, NRC had $96.6 million of revenue funded expenditures and spent $56.8 million under other statutory authorities (mainly contributions to employee benefit plans).

DISCUSSION AND ANALYSIS

Uncertainties

NRC funds the majority of its salary, operating and capital expenditures from parliamentary authorities.

NRC owns and manages 180 specialized buildings and facilities across Canada that comprise approximately 555,000 square meters of space. It also has an equipment and informatics base (excluding CFHT assets) of $624.2 million in cost, with $159.4 million in net book value ($607.7 million in cost, with $173.8 million in net book value in 2011-12). Through its 5 year investment plan, NRC is investing appropriate funds to maintain its buildings and laboratories.

Sunsetting Funding: For certain new initiatives, it is the practice of the government to provide funding on a sunsetting basis. Rather than providing a permanent increase to parliamentary authorities, the government may allocate funding for specified purposes for a limited period of time with a renewal option. Renewal is conditional on various factors including performance, achieving desired objectives, linkages to priorities, and availability of funds.

New government-approved initiatives often entail ongoing commitments from NRC such as maintenance of new facilities and new staff salaries. There may be stakeholders that support these new initiatives, and in some cases invest in them, with expectations that the initiative will exist beyond the original funding window. These challenges add complexity to planning, budgeting and operations.

Currently, NRC has numerous initiatives and projects funded on a sunsetting basis, examples of which include the following:

- Transforming the National Research Council: Economic Action Plan 2013 provides $120.8 million over two years (expiring at the end of 2014-2015) to invest in NRC's strategic focus to help the growth of innovative businesses in Canada. NRC will receive $61.2 million in 2013-14 and $59.6 million in 2014-15.

- Digital Technologies Adoption Pilot Program (DTAPP): Administered by NRC-IRAP, DTAPP represents a significant investment into the Canadian economy in an effort to increase the productivity growth of SMEs in Canada through the adoption of digital technologies across all sectors. NRC-IRAP will receive funding of $37.5 million in 2013-14 for this initiative.

- TRIUMF: NRC receives $19.3 million in annual funding for TRIUMF, Canada's National Laboratory for Particle and Nuclear Physics. NRC will also receive an additional $89 million funding over the next two years that is sunsetting at the end of 2014-15. Since 1976, NRC has provided over $1.1 billion in funding to TRIUMF of which a total of $44 million was provided during 2012-13.

- Genomics R&D Initiatives: The Genomics R&D Initiatives (GRDI) is a federal program that coordinates genomics R&D in 6 federal departments and agencies. GRDI supports policy objectives in human health, agriculture and food safety, environment and natural resources management. NRC received funding of $8.8 million in 2012-13 for these initiatives, and will receive an additional $8.8 million in 2013-14.

Foreign Currency: In its normal course of operation, NRC makes some of its purchases in foreign currencies which exposes it to foreign exchange risk. NRC purchased C$40.6 million worth of goods and services in foreign currencies in 2012-13 (C$48 million in 2011-12); $37.1 million (91%) of the foreign currency purchases were in US dollars ($45.1 million or 94% in 2011-12). During 2012-13, it cost NRC an average of $1.006 Canadian dollars to purchase $1 US ($0.998 in 2011-12).

In addition, NRC had C$23.8 million worth of foreign currency receipts in 2012-13, of which $23 million (97%) was received in US currency compared to $29.3 million received in foreign currency in 2011-12 of which $28.7 million (98%) was in US currency.

Revenue: NRC activities generate revenues which can be reinvested in its operations. In 2012-13, 16% of NRC's salary, operating and capital expenditures were funded by revenue from external sources (21% in 2011-12).

NRC is focused on increasing its external revenue generating activities to strengthen its future financial sustainability. However, significant unexpected downturns affecting industries or government partners of NRC could impact its ability to fund operations.

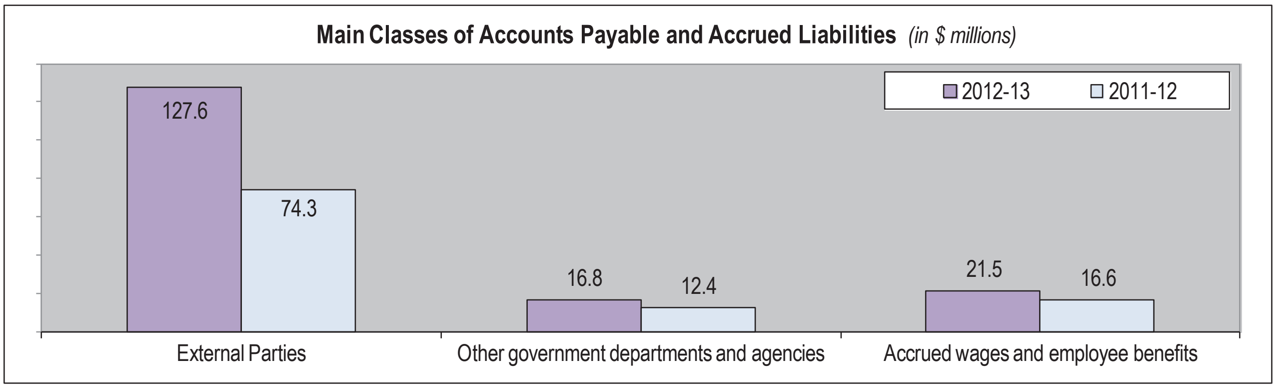
Variance and Trend Analysis

The following analysis describes the main items appearing on the consolidated financial statements and provides analysis of significant variances and financial trends.

Liabilities

NRC's total net liabilities were $321 million as at March 31, 2013, an increase of $53.9 million from the prior year balance of $267.1 million. NRC's liabilities consist of the following:

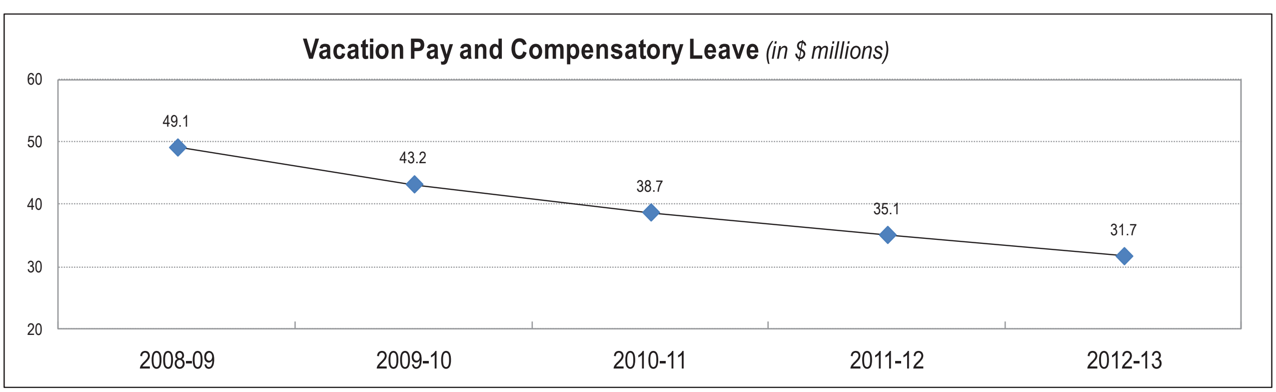
Accounts Payable and Accrued Liabilities: NRC's accounts payable and accrued liabilities as at March 31, 2013 were $167.6 million ($104.9 million as at March 31, 2012). The following shows the three largest categories:



The $53.3 million increase in accounts payable to external parties is primarily the result of higher accounts payable for NRC-IRAP at year-end. The contributions budget for NRC-IRAP doubled in 2012-13, and explains $44.6 million of the total increase in the amount of accounts payable to external parties as of March 31, 2013. There was also a $4.4 million increase in accounts payable to other government departments and agencies, and a $4.9 million increase in accrued wages and employee benefits.

Also included within Accounts Payable and Accrued Liabilities are contractor holdbacks, liabilities for contaminated sites, sales tax payable and CFHT accounts payable (totalling $1.7 million in 2012-13 and $1.6 million in 2011-12), as detailed in note 4 of the consolidated financial statements.

Vacation Pay and Compensatory Leave: Vacation pay and compensatory leave liabilities have decreased in each of the past four fiscal years to represent $31.7 million at March 31, 2013 - a $3.4 million decrease from 2011-12. The decrease is a result of changes to collective bargaining and management oversight activities taken to manage outstanding vacation liabilities.



Lease Inducements: Lease inducements totalled $42.9 million as at March 31, 2013. This balance relates to tangible capital assets provided to NRC under three lease agreements with monetary consideration

Lease Inducements: Lease inducements totalled $42.9 million as at March 31, 2013. This balance relates to tangible capital assets provided to NRC under three lease agreements with monetary consideration below fair market value. These leases of facilities were established at nominal cost with the University of Western Ontario, the University of Alberta, and the University of Prince Edward Island, to accommodate NRC research facilities.

These lease inducement liabilities have corresponding non-financial tangible capital assets and were originally recorded at the fair market value of the capital lease. Over the lease period, NRC recognizes equal amounts of amortization and lease inducement revenue. As a result, there is no impact to NRC's net cost of operations or its net financial position. The balance decrease of $2.5 million in the current year is accounted for as revenue recognized during the period.

Deferred Revenue: Deferred revenue represents funds received for which NRC has an obligation to other parties for the provision of goods, services or the use of assets in the future. The March 31, 2013 balance of $11.5 million ($15.2 million in 2012) is explained in Note 5 of the consolidated financial statements. The significant components include:

- $9 million of deferred revenue from research services and technical services projects. These are the two largest categories of revenue at NRC. When funds are received prior to work commencing or when the amount of funds received exceeds the value of the work performed as of March 31, 2013, deferred revenue is recorded. Revenue is then recognized as services are provided.

- $1.7 million received to construct a facility for the Hitachi Electron Microscopy Product Centre (HEMIC) as part of a collaboration agreement. This amount was deferred and the revenue will be recognized over the life of the collaboration beginning when the facility is put into use in 2013-14.

Employee Future Benefits: Employee future benefits represent the liability for severance benefits payable to employees upon termination of employment with the public service. This allowance is established at year end by applying an actuarial rate to total annual salary cost of NRC's indeterminate employees. This rate is determined by Treasury Board based on the liability for the government as a whole. The March 31, 2013 balance of $67.2 million represents a slight decrease from the prior year balance of $68.3 million. Note 7b of the consolidated financial statements provides additional detail.

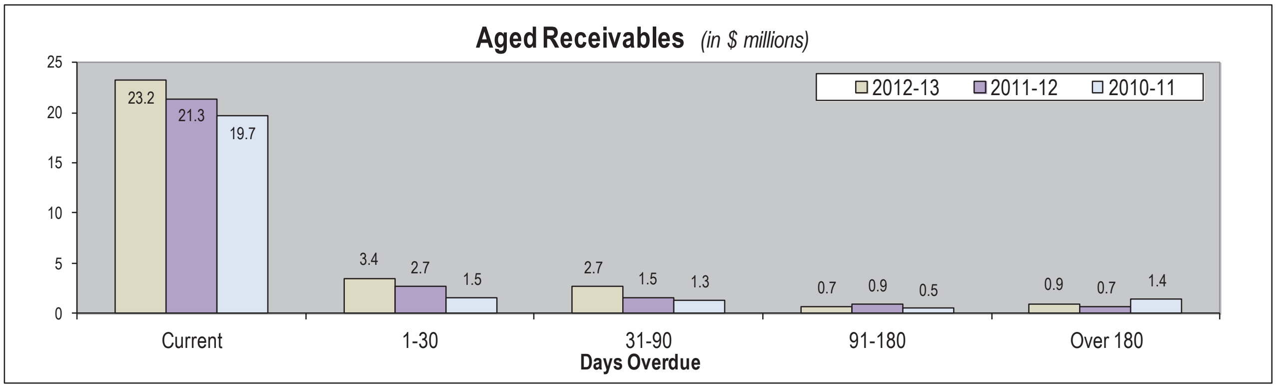
Financial Assets

Due from the 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 liabilities for which NRC has already received parliamentary authorities as well as revenue received but not spent. NRC's due from the CRF was $290.7 million as at March 31, 2013, a significant increase from the $183.8 million recorded at March 31, 2012. The $106.9 million total increase includes a $60 million increase in accounts payable and accrued liabilities that are eligible for payment from the CRF and a $46 million increase in revenue available for use in subsequent years.

Accounts Receivable: Accounts receivable and advances, as detailed in note 8 of the financial statements, totalled $30.6 million as at March 31, 2013, a $1.8 million increase from March 31, 2012. This includes accounts receivable with external parties worth $26.4 million ($21.9 million as at March 31, 2012). The corresponding allowance for doubtful accounts was $327 thousand ($497 thousand as at March 31, 2012), a favourable amount considering the total value of NRC's external revenues. Another $4.5 million ($5.2 million as at March 31, 2012) of the accounts receivable balance relates to other government departments and agencies.

The March 31, 2012 accounts receivable balance also included a net $2.1 million of repayable contributions relating to the NRC-IRAP Technology Partnerships Canada (TPC) program. As NRC no longer administered this program in 2012-13, a nil balance is reflected as at March 31, 2013.

Aged Accounts Receivable: The graph below presents the aged accounts receivable from external parties, other government departments, and employee advances. The prior year amounts exclude repayable contributions under the NRC-IRAP TPC program, which is no longer administered by NRC. In 2012-13, 95% (94% in 2011-12) of accounts receivable were aged 90 days or below indicating that receivables are collected in a timely manner.



Cash and Investments*:* In addition to the Equity Investments held by NRC, this line item includes the consolidated balance of cash and investments held by CFHT as detailed in Note 9 of the consolidated financial statements. CFHT Investments include time certificates of deposit and U.S. government securities.

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. NRC has on occasion taken an equity position in a company in return for assistance provided or in exchange for outstanding debts to NRC. NRC divests of equity investments by taking into account the interests and market liquidity of the company involved.

The full value of equity investments recorded in the Consolidated 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 $344 thousand to $215 thousand in 2012-13 as a result of write-down in the book value of one of the public companies in which NRC holds shares.

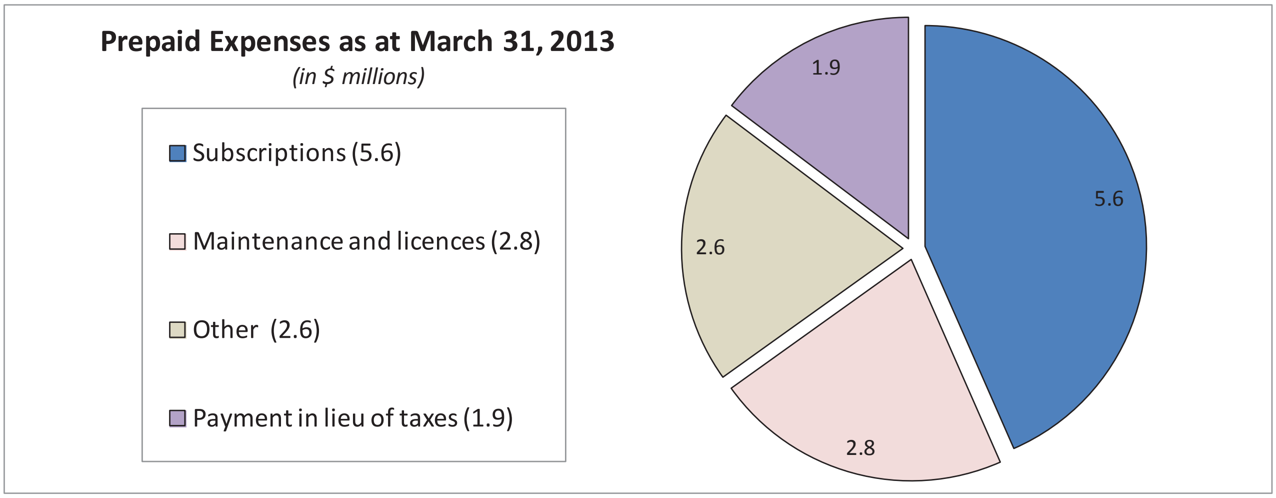
The following table provides an overview of NRC's 2012-13 equity holdings:

Company	Opening balance ($)	Book value of equity investments acquired, sold or written off during the year ($)	Closing balance ($)	Market value of publicly traded equity investments ($)
Avivagen Inc.	189,046	-	189,046	100,825
PharmaGap Inc.	155,215	(129,346)	25,869	6,467
Cequence Energy Ltd.	1	-	1	393
Privately held corporation	1	-	1	n/a
Total	**344,263**	**(129,346)**	**214,917**	**107,685**

NRC does not intend to hold publicly held securities for the long term.

Non-Financial Assets

Prepaid Expenses: NRC's prepaid expenses as at March 31, 2013 were $12.9 million ($11.7 million as at March 31, 2012), the components of which are shown in the chart below. Subscriptions make up the largest component of NRC's prepaid expenses. Canada's Science Library subscribes to many of the world's major scientific and technical journals and databases.



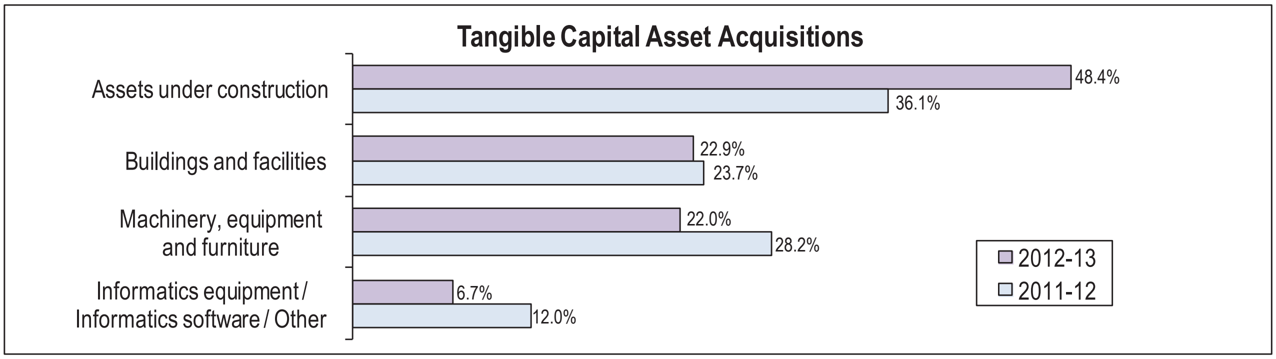
Endowment Fund Investments: The Holmes Endowment Fund is an investment bequeathed to NRC in July 1994. Up to two-thirds of the endowment fund's annual net income is used to finance the H.L. Holmes award. The award covers a one or two-year period and provides an opportunity for Canadian post-doctoral students to study at world famous graduate schools or research institutes. In 2012-13, NRC provided one grant totalling $108 thousand to a recipient of the 2011 NRC H.L. Holmes Award. The recipient is using a total award of $200 thousand to fund two years of collaborative research at the Wellcome Trust Sanger Institute in Cambridge in the UK. The research combines genetic sequencing with computer informatics to better understand breast cancer.

The endowment fund had a fair market value of $5.1 million on March 31, 2013 ($5 million on March 31, 2012). The investments within the portfolio had an average effective return of 3.99% in 2012-13 (4.41% in 2011-12). The endowment fund is presented at an amortized cost of $4.8 million ($4.7 million as at March 31, 2012) on the Consolidated Statement of Financial Position and not at fair value. Note 10 of the consolidated financial statements provides additional detail.

Tangible Capital Assets: The net book value of NRC's tangible capital assets decreased from $555.5 million in 2011-12 to $537.8 million in 2012-13. Total tangible capital asset acquisitions amounted to $46.8 million with amortization of $64.6 million and net adjustments, disposals and write-offs of $0.1 million. Note 11 of the consolidated financial statements provides additional detail.

Acquisitions

The additions to Tangible Capital Assets of $46.8 million in 2012-13 represented a slight increase from the $45.1 million spent in 2011-12. The most significant acquisition categories were assets under construction ($22.6 million or 48%), building and facilities ($10.7 million or 23%) and investments in machinery, equipment and furniture ($10.3 million or 22%).



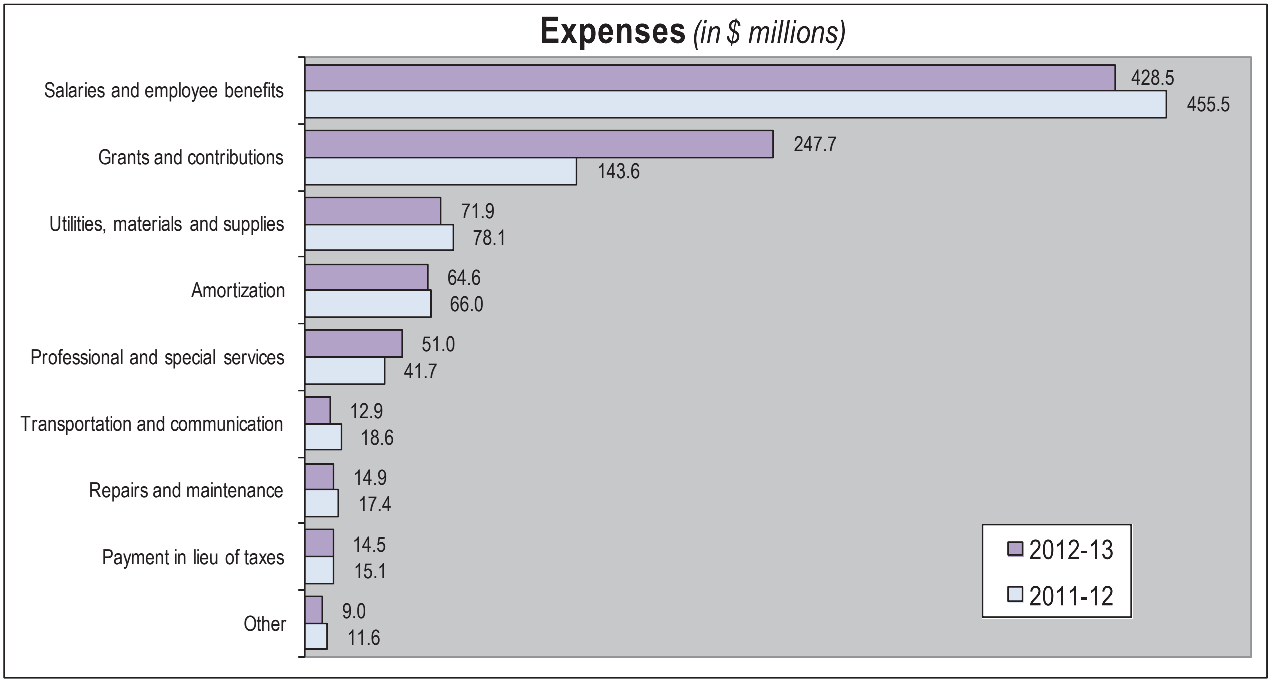
The following represents significant tangible capital assets expenditures over $1 million in 2012-13:

- $13.6 million of building recapitalization work was completed in 2012-13 including: electrical system upgrades ($2.4 million), roofing ($1.6 million), mechanical system upgrades ($4.1 million), site work ($1.1 million), interior architectural work ($1.1 million), elevator upgrades ($375 thousand), and exterior building upgrades ($3.0 million)
- $5.3 million was invested in an energy and mechanical system retrofit at the 100 Sussex Drive Building (in addition to $1.8 million invested in 2011-12). This investment will be completed in 2014-2015 and is expected to provide $1.0 million annually in energy cost savings. Planned total project costs are $9.5 million.
- NRC's Aerospace Portfolio invested $2.0 million to repaint the shell of the U70 low-speed wind tunnel located at its Uplands facility in Ottawa. The high revenue generating wind tunnel required repainting to prevent potential damage to the structure from corrosion.
- NRC's Aerospace Portfolio invested $1.6 million (in addition to $1.8 million in previous years) towards the construction of a Synthetic Fuels Facility to support a large high pressure and high temperature combustion project. This is a key asset required to test and develop low emission gas turbines, and generate revenue for NRC through the use of the test facility.
- NRC's Aerospace Portfolio invested $1.2 million to refurbish one of NRC's helicopters to replace the actuators with a modern fly-by-wire system. The system will enable the helicopter to serve as an airborne simulator. The experimental fly-by-wire capacity meets the high demand from Canadian Industry and the Department of National Defence.
- NRC's Human Health Therapeutics Portfolio invested $1.2 million in Genomics Technologies and Plant Growth facilities required for the NRC Canadian Wheat Improvement Flagship Program. This program will make a significant contribution to improving the yield, sustainability, and profitability of Canadian wheat.
- NRC's Human Health Therapeutics Portfolio invested $1.1 million to acquire equipment and instrumentation to establish state-of-the art capacity in physiochemical characterization of protein biologics. It will allow the NRC to successfully deploy vaccine and biologics programs that will foster industrial innovation and growth through technology support, and deliver results in line with the objectives of the federal government's Science and Technology Strategy, particularly with respect to regenerative medicine and health in an aging population.

Expenses

Expenses are shown in the Consolidated Statement of Operations and Departmental Net Financial Position by Program Alignment Architecture (PAA) categories. They are also detailed by type of expense in Note 16 of the consolidated financial statements.

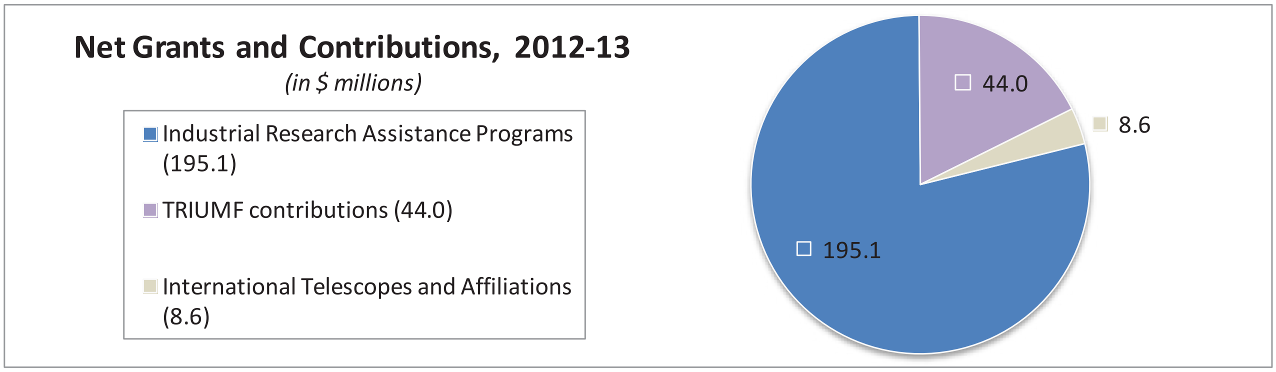
NRC's expenses increased from $847.6 million in 2011-12 to $915.0 million in 2012-13. The two largest categories of expenses are salaries and employee benefits (46.8% of total expenses in 2012-13 and 53.7% in 2011-12) and grants & contributions (27.1% of total expenses in 2012-13, 16.9% in 2011-12). The following illustrates expenses by type:



Total expenses of $915.0 million were $108.0 million higher than the amount forecast in NRC's Future Oriented Financial Statements reported in the 2012-13 Report on Plans and Priorities (RPP), and shown as Planned Results on the Consolidated Statement of Operations and Departmental Net Financial Position. The variance is primarily due to Grants and Contribution expense ($78.2 million (46%) higher than forecast), as the government had not yet announced the budget increase for NRC-IRAP at the time the forecast was established. Salary and employee benefits were $27.5 million (6.9%) higher than forecast.

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 health and dental plan costs. Total NRC salaries and employee benefits have decreased by $27.0 million, from $455.5 million in 2011-12 to $428.5 million in 2012-13. The decrease is primarily the result of fewer full-time equivalent employees (FTEs) compared to 2011-12, offset in part by higher workforce adjustment payments in 2011-12. Additionally, new government-wide employment contract agreements resulted in certain NRC employees classifications no longer eligible for severance benefits reducing annual severance liability expenses.

Grants and Contributions*:* Grants and contributions increased by $104.1 million, from $143.6 million in 2011-12 to $247.7 million in 2012-13, as shown in the chart below. The increase is the result of an additional $110.0 million per year in funding to double the Industrial Research Assistance Program as announced in Canada's Economic Action Plan 2012.



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 $6.2 million from $78.1 million in 2011-12 to $71.9 million in 2012-13. The 8% reduced spending included areas such as laboratory equipment and parts, and electronics and electronic supplies. Spending in these areas depends on the varying nature of projects from year to year which can have different material and supply requirements.

Amortization: Tangible capital assets yield benefits over many accounting periods. As such, NRC's use of tangible capital assets to provide services is recognized as an expense on a straight-line basis over the estimated useful life of each asset class. Amortization expense amounted to $64.6 million in 2012-13 ($66 million in 2011-12).

Professional and Special Services: Professional and special services increased by $9.3 million in 2012-13 to $51 million, from $41.7 million in 2011-12. This 22% increase is primarily due to NRC having transferred responsibility for its email, data centre and network services and support to Shared Services Canada (SSC) following the Government of Canada initiative to centralize these services. The services now received from SSC are recognized as services received without charge in professional services expenses. A total of $16.1 million was recognized in expenses, as shown in note 14a of the financial statements.

Transportation and Communication: Transportation and communication expenses decreased by $5.7 million in 2012-13, from $18.6 million in 2011-12 to $12.9 million in 2012-13. The 31% decrease is mainly attributable to NRC having transferred responsibility for its email, data centre and network services and support to SSC.

Repairs and Maintenance: NRC has a significant amount of infrastructure investments such as buildings, facilities, and research equipment. The repair and maintenance costs related to the maintenance of these assets totalled $14.9 million in 2012-13, a decrease from the $17.4 million incurred in 2011-12. Expenditures in this area can vary from year to year based on many factors including requirements for services.

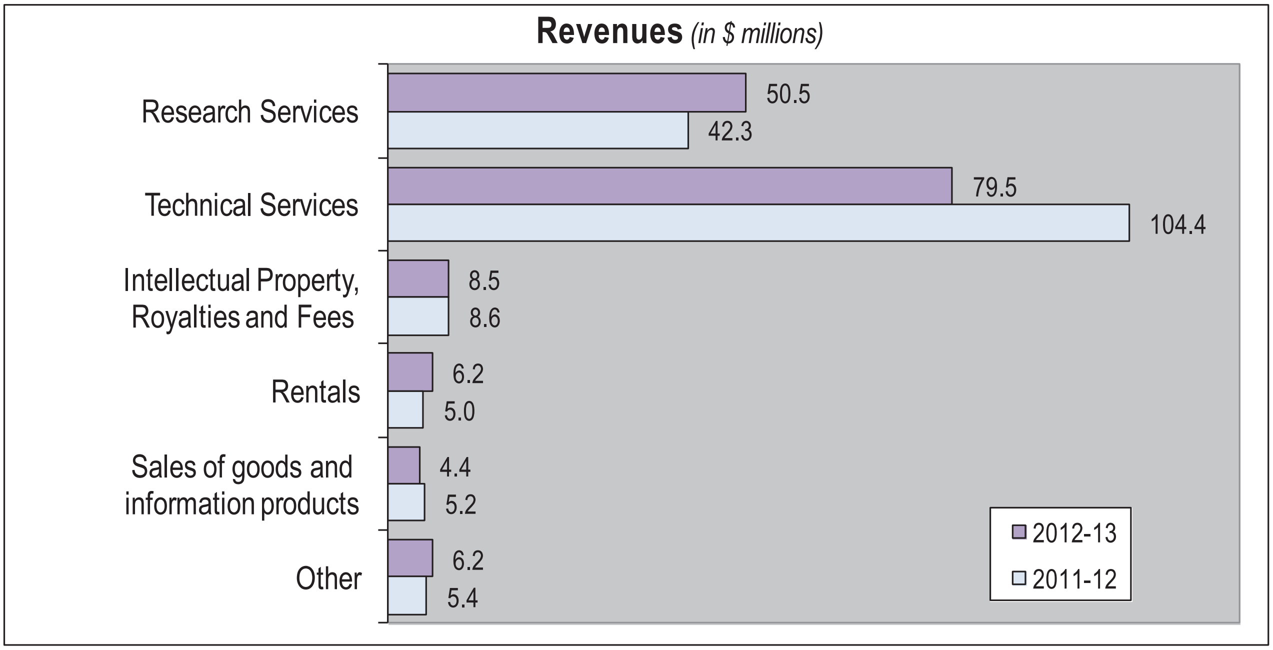
Payment in lieu of taxes (PILT): NRC owns property and is exempt from paying property tax as an agency of the Government of Canada. The Government of Canada, as a property owner, supports the principle that it should share the cost of local government equitably with other property owners in the community since federal properties benefit from municipal services. As such, federal departments and agencies, including NRC, transfer amounts to municipalities in lieu of taxes. Public Works and Government Services Canada (PWGSC) assesses the amount to be transferred by NRC under the PILT program each year. In 2012-13, NRC paid PILT of $14.5 million ($15.1 million in 2011-12).

Other: Other expenses of $9.0 million ($11.6 million in 2011-12) include, but are not limited to, rental charges of $4.4 million ($4.6 million in 2011-12), information costs of $1.8 million ($2 million in 2011-12) award costs of $1.6 million ($2.3 million in 2011-12), and cost of goods sold of $0.7 million ($2.5 million in 2011-12).

Expenses incurred on behalf of government: Treasury Board Accounting Standards require expenses incurred on behalf of government be backed out of the Consolidated Statement of Operations and Departmental Net Financial Position. In 2011-12, $1.1 million of such expenses (primarily salary) were incurred under the NRC-IRAP TPC program which NRC administered on behalf of Industry Canada. The administration of this program was transferred to Industry Canada in April 2012.

Revenues

NRC's total revenues decreased from $170.9 million in 2011-12 to $155.3 million in 2012-13. The following chart provides a breakdown of the revenue components:



Revenues of $155.3 million were $25.4 million lower than the amount forecast in NRC's Future Oriented Financial Statements reported in the 2012-13 RPP. The refocusing of NRC research activities began during 2012-13, and revenue growth over this period of transition was slower than expected.

Technical Services: In 2012-13, $79.5 million or 51% ($104.4 million or 61% in 2011-12) of NRC revenues were generated from technical services. These are standard services delivered using existing NRC technology and expertise with projects that have a low level of technical risks and do not generate new intellectual property. The decrease is attributable to the transition of NRC research activities and transformation of business processes, which caused delays in program approval and required additional time spent on program planning. NRC also had several large projects in 2011-12 that were completed during that period.

Research Services: In 2012-13, $50.5 million or 33% ($42.3 million or 25% in 2011-12) of NRC revenues were generated from research services, which are non-standard services delivered with incremental intellectual contribution and some level of technical/scientific risks. This includes Collaborative Research Services, where clients can provide intellectual contribution to the project and share the total cost of the project. The $8.2 million increase is the result of a greater emphasis on programs directed toward Research Service type projects versus Technical Services projects.

Intellectual Property Royalties and Fees: 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 2012-13, NRC generated $8.5 million in royalties similar to the $8.6 million realized in 2011-12.

Rentals: 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 $6.2 million in 2012-13, compared to $5 million in 2011-12.

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 $4.4 million in 2012-13, as compared to $5.2 million in 2011-12. The largest component of revenue derived from the sale of goods and information products are sales of codes most significantly National Model Building Codes by NRC's Construction Portfolio.

Other: Other revenue of $6.2 million ($5.4 million in 2011-12) include, but are not limited to, lease inducement revenue of $2.5 million ($2.5 million in 2011-12) and grants and contributions revenue of $2.9 million ($2.1 million in 2011-12).

Revenue earned on behalf of government: Treasury Board Accounting Standards require revenues earned on behalf of government be backed out of the Consolidated Statement of Operations and Departmental Net Financial Position. In 2011-12, this included $1.2 million of financial arrangement revenue provided by Industry Canada for the NRC-IRAP TPC program, which NRC administered on their behalf (NRC no longer administered the program during 2012-13), and $255 thousand of interest revenues which NRC cannot use for its operations. The 2012-13 balance of $128 thousand results from a reversal of IRAP-TPC interest revenue from 2011-12.

NRC · CNRC

Consolidated Financial Statements

National Research Council Canada

March 31, 2013

pwc

June 27, 2013

Independent Auditor's Report

To National Research Council Canada and the Minister of Industry

We have audited the accompanying consolidated financial statements of National Research Council Canada, which comprise the consolidated statement of financial position as at March 31, 2013 and the consolidated statements of operations and departmental net financial position, change in departmental net (surplus) debt and cash flow for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

PricewaterhouseCoopers LLP
99 Bank Street, Suite 800, Ottawa, Ontario, Canada K1P 1E4
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of National Research Council Canada as at March 31, 2013 and the results of its operations, changes in its net (surplus) debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Other matter
The consolidated financial statements of National Research Council Canada for the year ended March 31, 2012 were audited by another auditor whose report, dated August 2, 2012, expressed an unmodified opinion on those statements.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

National Research Council Canada

Statement of Management Responsibility Including Internal Control Over Financial Reporting

Responsibility for the integrity and objectivity of the accompanying consolidated financial statements for the year ended March 31, 2013, and all information contained in these statements rests with the management of the National Research Council Canada (NRC). These consolidated financial statements have been prepared by management using the Government's accounting policies, which are based on Canadian public sector accounting standards.

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

Management is also responsible for maintaining an effective system of internal control over financial reporting (ICFR) designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly authorized and recorded in accordance with the *Financial Administration Act* and other applicable legislation, regulations, authorities and policies.

Management seeks to ensure the objectivity and integrity of data in its consolidated financial statements through careful selection, training, and development of qualified staff; through organizational arrangements that provide appropriate divisions of responsibility; through communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout NRC; and through conducting an annual assessment of the effectiveness of the system of ICFR.

The system of ICFR is designed to mitigate risks to a reasonable level based on an ongoing process to identify key risks, to assess the effectiveness of associated key controls, and to make any necessary adjustments.

A risk based assessment of the system of ICFR for the year ended March 31, 2013 was completed in accordance with the Treasury Board *Policy on Internal Control* and the results and action plans are summarized in the annex.

The effectiveness and adequacy of NRC's system of internal control is reviewed by the work of internal audit staff, who conduct periodic audits of different areas of NRC's operations, and by the NRC Departmental Audit Committee, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting, and which recommends the consolidated financial statements to the President.

PricewaterhouseCoopers LLP has expressed an opinion on the fair presentation of the consolidated financial statements of NRC for the year ended March 31, 2013 which does not include an audit opinion on the annual assessment of the effectiveness of NRC's internal controls over financial reporting. The consolidated financial statements of NRC for the year ended March 31, 2012 were audited by the Office of the Auditor General of Canada.

John R. McDougall, P.Eng.
President

Michel Piché, M.P.A., CMA, CIA
Vice-President, Corporate Management
and Chief Financial Officer

Ottawa, Canada
June 27, 2013

National Research Council Canada
Consolidated Statement of Financial Position
As at March 31

(in thousands of dollars)	2013	2012
Liabilities		
Accounts payable and accrued liabilities (Note 4)	167,560	104,920
Vacation pay and compensatory leave	31,699	35,112
Lease inducements	42,946	45,494
Deferred revenue (Note 5)	11,498	15,207
Lease obligation for tangible capital assets (Note 6)	75	146
Employee future benefits (Note 7)	67,241	68,332
Total gross liabilities	**321,019**	**269,211**
Liabilities held on behalf of Government		
Accounts payable and accrued liabilities (Note 4)	-	(2,115)
Total liabilities held on behalf of Government	**-**	**(2,115)**
Total net liabilities	**321,019**	**267,096**
Financial Assets		
Due from the Consolidated Revenue Fund	290,720	183,826
Accounts receivable and advances (Note 8)	30,641	28,873
Inventory for resale	2,843	3,261
Cash and investments (Note 9)	2,744	2,784
Total gross financial assets	**326,948**	**218,744**
Financial assets held on behalf of Government		
Accounts receivable and advances (Note 8)	(76)	(2,418)
Total financial assets held on behalf of Government	**(76)**	**(2,418)**
Total net financial assets	**326,872**	**216,326**
Departmental net (surplus) debt	**(5,853)**	**50,770**
Non-Financial Assets		
Prepaid expenses	12,883	11,670
Endowment fund investments (Note 10)	4,812	4,724
Inventory for consumption	4,375	4,103
Tangible capital assets (Note 11)	537,827	555,478
Total non-financial assets	**559,897**	**575,975**
Departmental net financial position	**565,750**	**525,205**

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

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

John R. McDougall, P.Eng.
President

Michel Piché, M.P.A., CMA, CIA
Vice-President, Corporate Management
and Chief Financial Officer

Ottawa, Canada
June 27, 2013

National Research Council Canada
Consolidated Statement of Operations and Departmental Net Financial Position
For the Year Ended March 31

(in thousands of dollars)	2013 Planned Results	2013	2012
Expenses			
Manufacturing Technologies	144,385	135,889	151,779
Information and Communication Technologies (ICT) and Emerging Technologies	75,051	66,123	76,800
Industrial Research Assistance	166,568	248,288	148,671
Health and Life Sciences Technologies	122,107	87,827	116,480
Energy and Environmental Technologies	45,493	41,025	39,704
National Science and Technology Infrastructure	98,491	101,849	99,989
Scientific, Technical and Medical Information	20,806	21,113	23,221
Internal Services	134,306	212,911	192,091
Expenses incurred on behalf of Government	(625)	-	(1,092)
Total expenses	**806,582**	**915,025**	**847,643**
Revenues			
Research services	40,557	50,441	42,284
Technical services	116,835	79,530	104,429
Intellectual property, royalties and fees	10,708	8,455	8,572
Sales of goods and information products	5,000	4,422	5,171
Rentals	4,500	6,215	4,987
Grants and contributions	-	2,884	2,134
Lease inducement revenue	2,548	2,548	2,548
Other	1,133	649	2,243
Revenues earned on behalf of Government	(625)	128	(1,455)
Total revenues	**180,656**	**155,272**	**170,913**
Net cost of operations before government funding and transfers	**625,926**	**759,753**	**676,730**
Government funding and transfers			
Net cash provided by Government	599,412	647,434	657,872
Change in due from the Consolidated Revenue Fund	10,750	106,894	(13,474)
Services provided without charge by other government departments and agencies (Note 14)	28,444	46,498	40,710
Transfers from/to other government departments (Note 15)	-	(528)	2,064
Net cost of operations after government funding and transfers	**(12,680)**	**(40,545)**	**(10,442)**
Departmental net financial position - Beginning of year	**525,205**	**525,205**	**514,763**
Departmental net financial position - End of year	**537,885**	**565,750**	**525,205**

Segmented Information (Note 16)

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

National Research Council Canada
Consolidated Statement of Change in Departmental Net (Surplus) Debt
For the Year Ended March 31

(in thousands of dollars)	**2013** Planned Results	**2013**	**2012**
Net cost of operations after government funding and transfers	**(12,680)**	**(40,545)**	**(10,442)**
Change due to tangible capital assets			
Acquisition of tangible capital assets	45,017	46,812	45,089
Amortization of tangible capital assets	(64,496)	(64,637)	(66,012)
Proceeds from disposal of tangible capital assets	-	(173)	(695)
Net loss on disposal capital assets including adjustments	(1,437)	(126)	(1,435)
Transfers from/to other government departments (Note 15)	-	525	(1,518)
Other adjustments	-	(52)	540
Total change due to tangible capital assets	**(20,916)**	**(17,651)**	**(24,031)**
Change due to inventories for consumption	**-**	**272**	**(654)**
Change due to endowment fund investments	**113**	**88**	**93**
Change due to prepaid expenses	**-**	**1,213**	**172**
Net decrease in departmental net debt	**(33,483)**	**(56,623)**	**(34,862)**
Departmental net debt - Beginning of year	**50,770**	**50,770**	**85,632**
Departmental net (surplus) debt - End of year	**17,287**	**(5,853)**	**50,770**

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

National Research Council Canada
Consolidated Statement of Cash Flow
For the Year Ended March 31

(in thousands of dollars)	**2013**	**2012**
Operating Activities		
Net cost of operations before government funding and transfers	759,753	676,730
Non-cash items		
Amortization of tangible capital assets	(64,637)	(66,012)
Transfers from/to other government departments (Note 15)	1,053	(3,582)
Net loss on disposal of tangible capital assets	(126)	(1,435)
Services provided without charge by other government departments and agencies (Note 14)	(46,498)	(40,710)
Impairment in value of equity investments	(129)	(128)
Other adjustments to tangible capital assets	(52)	540
Variations in Statement of Financial Position		
Increase in accounts receivable and advances	4,110	2,915
(Decrease) increase in inventory for resale	(418)	1,069
Increase in prepaid expenses	1,213	172
Increase (decrease) in inventory for consumption	272	(654)
(Increase) decrease in accounts payable and accrued liabilities	(64,755)	34,506
Decrease in vacation pay and compensatory leave	3,413	3,583
Decrease in lease inducements	2,548	2,548
Decrease in deferred revenue	3,709	575
Decrease in employee future benefits	1,091	2,767
Cash used in operating activities	**600,547**	**612,884**
Capital Investing Activities		
Acquisitions of tangible capital assets	46,812	45,089
Proceeds from disposal of tangible capital assets	(173)	(695)
Cash used in capital investing activities	**46,639**	**44,394**
Investing Activities		
Income from endowment fund investments	196	208
Awards granted from endowment fund	(108)	(115)
Increase in CFHT cash and investments	89	434
Cash used in investing activities	**177**	**527**
Financing Activities		
Lease payments for tangible capital assets	71	67
Cash used in financing activities	**71**	**67**
Net cash provided by Government of Canada	**647,434**	**657,872**

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

National Research Council Canada
Notes to Consolidated Financial Statements
For the Year Ended March 31, 2013

1. Authority and Objectives

The National Research Council Canada (NRC) exists under the *National Research Council Act (NRC Act)* and is a departmental corporation named in Schedule II of the *Financial Administration Act*. The mission of NRC is to work with clients and partners to provide strategic research, scientific and technical services to develop and deploy solutions to meet Canada's current and future industrial and societal needs.

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

- Manufacturing Technologies: Multidisciplinary research and development in consultation with industry, universities, government departments and other key innovation players to improve the global competitiveness of Canadian industry by transforming knowledge and innovation into real economic value and by transferring technologies into industrial solutions for the marketplace.
- Information and Communication Technologies (ICT) and Emerging Technologies: Mobilizes, collaborates and partners with key university, government and private sector players and forms major research collaborations to develop integrated research solutions in the areas of information and communication technologies and emerging technologies.
- Industrial Research Assistance (IRAP): Provides a range of technical and business-oriented advisory services, as well as financial support for small and medium-sized Canadian businesses engaged in research and development of technological innovations to augment their capacity and capability to innovate, commercialise and generate significant economic activity for Canadian industry.
- Health and Life Science Technologies: Mobilizes and partners with key university, government and private sector players and forms major research collaborations to develop integrated research solutions for complex health and related life science issues.
- Energy and Environmental Technologies: In partnership with other government departments, universities and industry, brings together the knowledge and expertise needed to make an impact on areas of critical importance to Canada in environmental and sustainable energy.
- National Science and Technology Infrastructure: Manages national science and engineering facilities and infrastructure critical to research, development and innovation by Canadian scientific and technological communities.
- Scientific, Technical and Medical Information: Operates and maintains the national science library, specifically holding the national collection of scientific, technical and medical information, to facilitate knowledge discovery, cross discipline research, innovation and commercialization.
- Internal Services: Groups of activities and resources administered to support the needs of programs and other corporate obligations of the organization. Includes only those activities and resources that apply across the organization and not those provided specifically to a program.

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared using the Government's accounting policies stated below, which are based on Canadian public sector accounting standards. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian public sector accounting standards.

Significant accounting policies are as follows:

a) Parliamentary authorities

NRC is financed mainly by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to NRC do not parallel financial reporting according to generally accepted accounting principles since authorities are primarily based on cash flow requirements. Consequently, items recognized in the Consolidated Statement of Operations and Departmental Net Financial Position and in the Consolidated Statement of Financial Position are not necessarily the same as those provided through authorities from Parliament. Note 3 provides a reconciliation between the bases of reporting. The planned results amounts in the Consolidated Statement of Operations and Departmental Net Financial Position are the amounts reported in the future-oriented financial statements included in the *2012-13 Report on Plans and Priorities*, which have been reclassified to conform to the current year's presentation.

b) Consolidation

These consolidated financial statements include both NRC and its portion of the accounts of the Canada-France-Hawaii Telescope Corporation (CFHT). The NRC relationship with CFHT meets the definition of a government partnership under Canadian public sector accounting standards, which requires that its results be proportionally consolidated within those of NRC. All inter-organizational balances and transactions are eliminated as part of the consolidation process. CFHT has audited financial statements as at December 31, 2012 which have been proportionally consolidated with NRC's March 31, 2013 financial statements.

c) Net cash provided by Government

NRC operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by NRC is deposited to the CRF and all cash disbursements made by NRC are paid from the CRF. 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 Government.

d) Amounts due from or to the CRF

Amounts due from or to the CRF are the result of timing differences at year-end between when a transaction affects authorities and when it is processed through the CRF. Amounts due from the CRF represent the net amount of cash that NRC is entitled to draw from the CRF without further authorities to discharge its liabilities.

e) Revenues

Revenues are recognized in the year in which the underlying transaction or event occurred that gave rise to revenue as follows:

- Research and Technical services: revenues are recognized as services are provided based on percentage-of-completion.
- Intellectual property, royalties and fees: revenues are recognized over the licence period.
- Sales of goods and information products: revenue is recognized when goods or information products are delivered to the client.
- Rentals: revenue is recognized in the period in which the lease or use of property relates to.
- Grants and contributions: revenue is recognized when the transfer payment is authorized and any eligibility criteria are met, except to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability.

Funds received for which NRC has an obligation to other parties for the provision of goods, services or the use of assets in the future are recorded as deferred revenue.

Receipts are deposited to the CRF. Under the *NRC Act*, money received by NRC through the conduct of its operations is respendable in the current or in subsequent years.

Revenues that are non-respendable are not available to discharge NRC's liabilities. While the President is expected to maintain accounting control, he has no authority regarding the disposition of non-respendable revenues. As a result, non-respendable revenues are considered to be earned on behalf of the Government of Canada and are therefore presented in reduction of the NRC's gross revenues.

f) Expenses

- Expenses are recorded on the accrual basis.
- Contributions are recognized in the year in which the recipient has met the eligibility criteria or fulfilled the terms of a contractual transfer agreement, provided that the transfer is authorized and a reasonable estimate can be made.
- 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 consolidated financial statements.
- Vacation pay and compensatory leave are accrued as the benefits are earned by employees under their respective terms of employment.
- Services provided without charge by other government departments and agencies for accommodation, employer contributions to the health and dental insurance plans, legal services, workers' compensation and the services related to the email, data centre and network services and the email, data centre and network support unit are recorded as operating expenses at their estimated cost.

g) Employee future benefits

i) Pension Benefits

Eligible employees participate in the Public Service Pension Plan, a multiemployer pension plan administered by the Government of Canada. NRC's contributions to the Plan are charged to expenses in the year incurred and represent NRC's total obligation to the Plan. 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.

ii) Severance Benefits

Employees entitled to severance benefits under labour contracts or conditions of employment earn these benefits as services necessary to earn them are rendered. 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.

h) Lease inducements

Lease inducements represent incentives received by NRC to enter into lease agreements for property at a nominal cost of one dollar. Lease inducements are deferred and amortized on the same basis as the related depreciable tangible capital assets.

i) Accounts receivable

Accounts receivable are stated at the lower of cost and net recoverable value. A valuation allowance is recorded for receivables where recovery is considered uncertain.

j) 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 consolidated financial statements.

k) 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 not determinable, or if an amount cannot be reasonably estimated, the costs are disclosed as contingent liabilities in the notes to the consolidated financial statements.

l) Inventories

Inventory consists of parts, materials and supplies held for future program delivery as well as inventory for resale. Inventory for resale is recorded at the lower of cost, using the average cost method, or net realizable value. Inventory for consumption is recorded at cost using the average cost method.

m) Equity investments

Equity investments include shares in public 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.

n) Endowment fund investments

Endowments consist of donations subject to externally imposed restrictions stipulating that the resources be maintained permanently by NRC. Income from the endowment fund investments may only be used for the purposes established by the donors.

Funds received for endowments are invested in bonds and other low risk instruments and are carried at amortized cost. Discounts and premiums arising on the purchase of these investments are amortized over the term of the investments.

o) 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 a foreign currency, and CFHT assets and liabilities, are translated into Canadian dollars using the rate of exchange in effect at year end. Gains and losses resulting from foreign currency transactions are included in the applicable line on the Consolidated Statement of Operations and Departmental Net Financial Position according to the activities to which they relate. Net gains and losses relating to the sale of goods or services denominated in a foreign currency are included in revenues. Net gains and losses relating to the purchase of goods or services denominated in a foreign currency are included in expenses. Contractual obligations may contain foreign currencies that are translated into Canadian dollar equivalents using the rate of exchange in effect at March 31, 2013. CFHT revenues and expenses are translated into Canadian dollar equivalents using the average rate during the fiscal year.

p) Tangible capital assets

All 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 fair 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 once the tangible capital asset is deemed held for sale.

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 - 40 years
Machinery, equipment and furniture	10 years
Informatics equipment	5 years
Informatics software	5 years
Vehicles	7 years
Aircraft	15 - 30 years
Leasehold improvements	Lesser of the remaining term of the lease or useful life of the improvement
Leased tangible capital assets	In accordance with asset class

Assets under construction are recorded in the applicable capital asset class in the year that they become available for use and are not amortized until they become available for use.

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. If the fair value cannot be reasonably determined, the amount of the transaction is recorded at a nominal value.

The tangible capital assets consolidated from the CFHT Corporation are stated at cost. Amortization is calculated on the straight-line method over the estimated useful lives of the tangible capital assets ranging from 4 to 50 years.

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.

r) Measurement uncertainty

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the consolidated 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 percentage-of-completion on revenue from the provision of services, contingent liabilities, contaminated site liabilities, asset retirement obligations, 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 consolidated financial statements in the year they become known.

3. Parliamentary Authorities

NRC receives most of its funding through annual parliamentary authorities. Items recognized in the Consolidated Statement of Operations and the Departmental Net Financial Position and the Consolidated Statement of Financial Position in one year may be funded through parliamentary authorities 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 authorities used

(in thousands of dollars)	**2013**	**2012**
Net Cost of Operations before government funding and transfers	759,753	676,730
Adjustments for items affecting net cost of operations but not affecting authorities:		
Revenues	155,272	170,913
Amortization of tangible capital assets	(64,637)	(66,012)
Financial arrangements with other government departments and agencies	(51,148)	(62,595)
Services provided without charge by other government departments and agencies (Note 14)	(46,498)	(40,710)
Refund of previous years' expenditures	4,909	3,680
Increase in salary accrual	(4,871)	(9,179)
Decrease in vacation pay and compensatory leave	3,413	2,811
Decrease in employee future benefits	1,091	1,339
Other	(692)	430
Cost of goods sold	(654)	(2,495)
Decrease (increase) in contaminated sites liability	298	(600)
Decrease in accrued liabilities not charged to authorities	175	415
(Decrease) increase in inventory	(173)	32
Loss on disposal of tangible capital assets	(126)	(1,435)
Bad debt expense	(14)	2
Specified purpose accounts expenses	-	(22,533)
Total items affecting net cost of operations but not affecting authorities	(3,655)	(25,937)
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisitions of tangible capital assets and additions to assets under construction	46,620	44,550
Increase in prepaid expenses	1,213	172
Inventory purchases	660	2,878
Contaminated sites remediation reducing the liability	142	43
Decrease in lease obligations for tangible capital assets	71	67
Total items not affecting net cost of operations but affecting authorities	48,706	47,710
Current year authorities used	**804,804**	**698,503**

b) Authorities provided and used

(in thousands of dollars)	**2013**	**2012**
Authorities provided:		
Vote 60 – Operating expenditures	411,933	405,687
Vote 65 – Capital expenditures	42,309	42,265
Vote 70 – Grants and contributions	260,466	165,275
Statutory amounts:		
Revenues pursuant to paragraph 5(1)(e) of the *National Research Council Act*	188,038	146,959
Contributions to employee benefit plans	56,812	59,766
Proceeds from the disposal of surplus Crown assets	534	964
Collection agency fees	5	18
Loss on foreign exchange	-	3
Less:		
Revenues available for use in future years	(142,539)	(96,728)
Lapsed authorities:		
Frozen allotments - Operating	(5,091)	(1,489)
Frozen allotments - Capital	(76)	(6,942)
Unexpended authorities - Grants and contributions	(7,226)	(17,275)
Unexpended authorities - Operating	(361)	-
Current year authorities used	**804,804**	**698,503**

4. Accounts Payable and Accrued Liabilities

The following table presents details of NRC's accounts payable and accrued liabilities:

(in thousands of dollars)	**2013**	**2012**
Accounts payable - External parties	127,569	74,275
Accounts payable - Other government departments and agencies (Note 14)	16,844	12,436
Accrued wages and employee benefits	21,459	16,588
Contractor holdbacks	1,055	749
Contaminated site liabilities	197	637
Sales tax payable	364	119
CFHT - Accounts payable	72	116
Gross accounts payable and accrued liabilities	**167,560**	**104,920**
Accounts payable and accrued liabilities held on behalf of government (Note 14)	-	(2,115)
Net accounts payable and accrued liabilities	**167,560**	**102,805**

In *Canada's Economic Action Plan 2012*, the Government of Canada announced savings measures to be implemented by departments over the next three fiscal years starting in 2012-2013. Other savings measures have also been implemented by NRC. As a result, NRC has recorded at March 31, 2013 an obligation for termination benefits for an amount of $1,578,000 ($5,239,000 in 2012) as part of accrued wages and employee benefits to reflect the estimated workforce adjustment costs.

5. Deferred Revenue

Deferred revenue represents the balances at year-end of unearned revenues stemming from amounts received from external parties that are restricted in order to fund the expenditures related to specific research projects and stemming from amounts received for fees prior to services being performed. Revenue is recognized in the period in which these expenditures are incurred or in which the service is performed. Details of the transactions related to this account are as follows:

(in thousands of dollars)	**2013**	**2012**
Opening balance	15,151	15,689
Funds received	31,213	31,095
Revenue recognized	(34,957)	(31,633)
Closing balance	11,407	15,151
CFHT – Deferred revenue	91	56
Total deferred revenue	**11,498**	**15,207**

6. Lease Obligation for Tangible Capital Assets

NRC has entered into an agreement to lease mechanical test equipment under capital lease with a cost of $336,000 and accumulated amortization of $89,600 as at March 31, 2013 ($336,000 and $56,000 respectively as at March 31, 2012). The obligations related to the upcoming years include the following:

(in thousands of dollars)	**2013**	**2012**
2013	-	80
2014	80	80
Total future minimum lease payments	80	160
Less: imputed interest (6.11%)	(5)	(14)
Balance of obligations under leased tangible capital assets	**75**	**146**

7. Employee Future Benefits

a) Pension benefits

Eligible NRC employees participate in the Public Service Pension Plan, which is sponsored and administered by the Government. Pension benefits accrue up to a maximum of 35 years at a rate of 2% per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plans benefits and they are indexed to inflation.

Both the employees and NRC contribute to the cost of the Plan. The expense amounted to $40,563,757 as at March 31, 2013 ($42,958,202 in 2012), which represented approximately 1.7 times (1.8 times in 2012) 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) Severance benefits

NRC provides severance benefits to its employees based on eligibility, years of service and salary at termination of employment. These severance benefits are not pre-funded. Benefits will be paid from future authorities.

As part of changes to conditions of employment for executives and certain non-represented employees, the accumulation of severance benefits under the employee severance pay program ceased for these employees commencing in 2012. Employees subject to these changes have been given the option to be immediately paid the full or partial value of benefits earned to date or collect the full or remaining value of benefits on termination from the public service. These changes have been reflected in the calculation of the outstanding severance benefit obligation.

Information about the severance benefits, measured as at March 31, is as follows:

(in thousands of dollars)	**2013**	**2012**
Accrued benefit obligation, beginning of year	68,332	71,099
Transferred to other government department, effective November 15, 2011	-	(1,428)
Subtotal	68,332	69,671
Expense for the year	7,138	7,660
Benefits paid during the year	(8,229)	(8,999)
Accrued benefit obligation, end of year	**67,241**	**68,332**

8. Accounts Receivable and Advances

The following table presents details of NRC's accounts receivable and advances balances:

(in thousands of dollars)	**2013**	**2012**
Receivables from external parties	26,377	21,877
Receivables from other government departments and agencies (Note 14)	4,516	5,172
CFHT – Accounts receivable	75	174
Employee advances	-	32
	30,968	27,255
Less: allowance for doubtful accounts on receivables from external parties	(327)	(497)
	30,641	26,758
Repayable contributions	-	6,902
Less: allowance for uncollectibility	-	(4,787)
Net repayable contributions	-	2,115
Gross accounts receivable	**30,641**	**28,873**
Accounts receivable held on behalf of Government	(76)	(2,418)
Net accounts receivable	**30,565**	**26,455**

9. Cash and Investments

(in thousands of dollars)	**2013**	**2012**
Cash and investments held by CFHT	2,529	2,440
Equity investments	215	344
Cash and investments	**2,744**	**2,784**

Equity investments include shares in three public companies (three in 2012) and one privately held company (one in 2012). These shares were obtained through debt settlement or non-monetary transactions. NRC will consider timely opportunities for divestiture of equity investments by taking into account the interests, market liquidity and expected future growth of the applicable company.

NRC recorded an impairment reducing the value of its shares in two publically held companies by an amount of $129,346 ($127,688 in 2012).

As at March 31, 2013, the book value of the equity investments was $214,917 ($344,263 in 2012). The market value of NRC's equity investments in public companies was $107,685 ($169,685 in 2012). The market value of the privately held companies is not determinable.

10. 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 annual 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)	**2013**	**2012**
Restricted cash and investments, beginning of year	4,724	4,631
Net income from endowment	196	208
Awards granted	(108)	(115)
Restricted cash and investments, end of year	**4,812**	**4,724**

The portfolio for endowment fund investments had an average effective return of 3.99% (4.41% in 2012) and an average term to maturity of 3.92 years as at March 31, 2013 (4.48 years as at March 31, 2012). The fair value of the endowment investments as at March 31, 2013 was $5,141,690 ($5,036,346 in 2012).

11. Tangible Capital Assets

(in thousands of dollars)	**Cost**					**Accumulated Amortization**					**Net Book Value**	
Tangible capital asset class	**Opening balance**	**Acquisitions**	**Adjustments (1)**	**Disposals and write-offs**	**Closing balance**	**Opening balance**	**Amortization**	**Adjustments**	**Disposals and write-offs**	**Closing balance**	**2013**	**2012**
Land	9,879	-	-	-	9,879	-	-	-	-	-	9,879	9,879
Buildings and facilities	704,928	10,742	(423)	-	715,247	(428,489)	(22,359)	94	-	(450,754)	264,493	276,439
Works and infrastructure	24,926	965	726	-	26,617	(15,835)	(1,011)	-	-	(16,846)	9,771	9,091
Machinery, equipment and furniture	525,771	10,319	15,724	(10,965)	540,849	(368,990)	(31,201)	(4,937)	10,286	(394,842)	146,007	156,781
Informatics equipment	51,479	830	563	(1,361)	51,511	(41,300)	(3,709)	(512)	1,373	(44,148)	7,363	10,179
Informatics software	18,398	654	626	17	19,695	(13,098)	(2,141)	(27)	9	(15,257)	4,438	5,300
Vehicles	3,051	316	-	(239)	3,128	(2,247)	(195)	-	233	(2,209)	919	804
Aircraft	12,003	112	21	-	12,136	(10,487)	(37)	-	-	(10,524)	1,612	1,516
Leasehold improvements	17,416	36	-	(100)	17,352	(4,337)	(771)	-	99	(5,009)	12,343	13,079
Assets under construction	21,334	22,647	(10,925)	(45)	33,011	-	-	-	-	-	33,011	21,334
Leased tangible capital assets	64,036	-	-	-	64,036	(18,263)	(2,581)	-	-	(20,844)	43,192	45,773
CFHT - Tangible capital assets	21,038	191	(62)	(106)	21,061	(15,735)	(632)	-	105	(16,262)	4,799	5,303
Total	1,474,259	46,812	6,250	(12,799)	1,514,522	(918,781)	(64,637)	(5,382)	12,105	(976,695)	537,827	555,478

(1) Adjustments include assets under construction of $10,925,000 that were transferred to the other categories upon completion of the assets.

During the year, NRC received machinery, equipment and furniture and informatics equipment with a cost of $6,298,207 and accumulated amortization of $5,360,057 (net book value of $938,150) from various government departments. NRC also transferred machinery, equipment and furniture with a cost of $597,858 and accumulated amortization of $184,339 (net book value of $413,519) to a government department.

Amortization expense for the year ended March 31, 2013 is $64,637,390 ($66,012,243 in 2012).

At March 31, 2013, NRC held nine land lease agreements (nine in 2012) for a nominal annual cost 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, whereby leased property was provided to NRC for twenty-five years at a nominal cost of one dollar. 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 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 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.

12. 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 in order to carry out its transfer payment programs or when the services/goods are received. Transfer payments and significant operating contractual obligations that can be reasonably estimated are summarized as follows:

(in thousands of dollars)	**2014**	**2015**	**2016**	**2017**	**2018 and thereafter**	**Total**
Transfer payments	170,933	62,145	5,729	-	-	238,807
Operating contracts	23,137	7,183	670	266	52	31,308
Total	**194,070**	**69,328**	**6,399**	**266**	**52**	**270,115**

Transfer payments contractual obligations to CFHT as shown in Note 14c have been excluded from the future contractual obligations.

13. Contingent Liabilities

Contingent liabilities arise in the normal course of operations and their ultimate disposition is unknown. They are grouped into three categories as follows:

a) Contaminated sites

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. For 2013, NRC has identified four sites (four sites in 2012) where such action is possible and for which a liability of $197,000 ($636,995 in 2012) has been recorded in accounts payable and accrued liabilities. The estimate has been prepared using current market rates and is based on the results of initial testing performed by NRC at suspect 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 likely and are reasonably estimable.

b) Claims and litigation

Claims have been made against NRC in the normal course of operations. Legal proceedings for three claims were pending at March 31, 2013 (three in 2012). NRC has one claim that it believes will likely result in a liability where the amount is determinable (nil in 2012), no claim that it believes will likely result in a liability where the amount is undeterminable (one in 2012) and two claims that it believes will unlikely result in a liability (two in 2012). NRC has recorded an allowance for claims and litigations where it is likely that there will be a future payment and a reasonable estimate of the loss can be made.

c) Asset retirement obligations

As at March 31, 2013 NRC has recognized an asset retirement obligation of $273,000 ($265,000 in 2012) in the consolidated 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 $435,000 ($443,000 in 2012). The liability for the expected future cash flows, as reflected in the consolidated financial statements, has been discounted at a weighted average of 3.38% (3.81% in 2012) 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)	**2013**	**2012**
Asset retirement obligations, beginning of year	265	253
Accretion of asset retirement obligations	8	12
Asset retirement obligations, end of year	**273**	**265**

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 consolidated 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.

14. Related Party Transactions

NRC is related as a result of common ownership to all Government departments, agencies, and Crown corporations. NRC enters into transactions with these entities in the normal course of business and on normal trade terms. During the year, NRC received common services which were obtained without charge from other government departments as disclosed below.

a) Common services provided without charge by other government departments and agencies

During the year, NRC received services without charge from other government departments and agencies. These services have been recognized in NRC's Consolidated Statement of Operations and Departmental Net Financial Position as follows:

(in thousands of dollars)	**2013**	**2012**
Employer's contributions to the health and dental insurance plans provided by Treasury Board	29,317	30,267
Email, data centre and network services and the email, data centre and network support unit provided by Shared Services Canada	16,146	8,667
Audit of NRC's consolidated financial statements provided by the Office of the Auditor General of Canada	-	850
Legal services provided by Justice Canada	600	483
Workers' compensation benefits provided by Human Resources and Skills Development Canada	259	273
Accommodation provided by Public Works and Government Services Canada	176	170
Total	**46,498**	**40,710**

The Government has centralized some of its administrative activities for efficiency, cost-effectiveness purposes and economic delivery of programs to the public. As a result, the Government uses central agencies, and common service organizations so that one department performs services for all other departments and agencies without charge. The costs of these services, such as the payroll and cheque issuance services provided by Public Works and Government Services Canada are not included in NRC's Consolidated Statement of Operations and Departmental Net Financial Position.

The activities related to the email, data centre and network services unit and the email, data centre and network support unit were transferred to Shared Services Canada on November 15, 2011. The services provided after the transfer date are recognized without charge.

b) Other transactions with related parties

(in thousands of dollars)	**2013**	**2012**
Accounts receivable from other government departments and agencies	4,516	5,172
Accounts payable to other government departments and agencies	16,844	10,321
Expenses – Other government departments and agencies	67,352	75,995
Revenues – Other government departments and agencies	54,297	64,537

Expenses and revenues disclosed in (b) exclude common services provided without charge, which are already disclosed in (a).

c) Canada-France-Hawaii Telescope Corporation

NRC has a related party relationship with the following non-federal government entity:

NRC was a founding member of the Canada-France-Hawaii Telescope Corporation (CFHT), a tax-exempt, not-for-profit organization established under Hawaii State law to design, construct, and operate a large optical telescope near the summit of Mauna Kea, Hawaii, USA, along with laboratories, equipment, and associated installations. The Corporation was established in 1974 by a Tripartite Agreement among the NRC, the Centre National de la Recherche Scientifique of France, and the University of Hawaii. NRC makes annual contributions to fund its 42.5% share of the cost of operations of the telescope and receives no direct benefit in return. However, as a result of NRC's contributions, Canada receives access to telescope observation hours for Canadian astronomers. As a founding member, NRC can appoint four of the ten members of the board of directors. The NRC relationship with CFHT is considered a government partnership for accounting purposes and CFHT results are proportionally consolidated in these statements. In 2012-13, NRC contributed $3.1 million to CFHT ($3.5 million in 2011-12). These contributions are eliminated upon consolidation. CFHT's condensed financial information for the period ending December 31 is as follows:

(in thousands of dollars)	**December 31, 2012**	**December 31, 2011**
Total assets	17,980	19,047
Total liabilities	1,598	1,566
Total unrestricted net assets	16,382	17,481
Total revenues	8,569	8,576
Total expenses	9,495	9,619
Net operating results	(926)	(1,043)

NRC's future contractual obligations to CFHT are not included in the transfer payment contractual obligations (Note 12) and are as follows:

(in thousands of dollars)	**2014**	**2015**	**2016**	**2017**	**2018 and thereafter**	**Total**
CFHT	3,261	3,342	3,426	2,503	-	12,532

15. Transfers from/to other government departments

In 2012-13, NRC paid accounts payable on behalf of Shared Services Canada for a total amount of $1,053,000. In addition, NRC received machinery, equipment and furniture and informatics equipment from various government departments. NRC also transferred machinery, equipment and furniture to a government department. The transactions can be summarized as follows:

(in thousands of dollars)	**2013**	**2012**
Net tangible capital assets transfers	(525)	1,518
Payment of accounts payable on behalf of Shared Services Canada	1,053	-
Transfer of accounts payable and accrued liabilities	-	(3,582)
Total	**528**	**(2,064)**

16. Segmented Information

Presentation by segment is based on NRC's program alignment architecture (PAA). NRC allocates transactions over the PAA in accordance with stewardship principles, based on the Portfolios, Branch or IRAP (P/B/I) that is responsible for managing the resource.

The presentation by segment is based on the same accounting policies as described in the Summary of significant accounting policies in Note 2. The following table presents the expenses incurred and revenues generated for the main program activities, by major object of expenses and by major type of revenues. The segment results for the period are as follows:

(in thousands of dollars)	Manufacturing Technologies	ICT and Emerging Technologies	Industrial Research Assistance	Health and Life Sciences Technologies	Energy and Environmental Technologies	National Science and Technology Infrastructure	Scientific, Technical and Medical Information	Internal Services	**2013 Total**	**2012 Total**
Transfer payments										
Grants and contributions	-	-	195,120	-	-	52,144	-	398	247,662	143,607
Total transfer payments	-	-	195,120	-	-	52,144	-	398	247,662	143,607
Operating expenses										
Salaries and employee benefits	101,066	42,089	44,907	65,425	30,859	34,475	10,033	99,693	428,547	455,491
Utilities, material and supplies	10,018	6,851	323	8,335	2,284	4,172	9,275	30,604	71,862	78,081
Amortization of tangible capital assets	11,657	7,576	49	8,532	4,215	3,753	390	28,465	64,637	66,013
Professional services	6,365	6,893	3,777	2,410	2,188	3,837	1,130	24,448	51,048	41,680
Repair and maintenance	2,544	1,189	242	1,792	441	451	79	8,127	14,865	17,426
Payment in lieu of taxes	-	-	-	-	-	-	-	14,485	14,485	15,062
Transportation and communication	3,329	1,007	2,332	1,043	924	2,292	215	1,768	12,910	18,628
Rentals	351	435	1,462	52	81	27	-	2,005	4,413	4,574
Information	185	21	88	72	11	44	3	1,332	1,756	1,976
Awards	14	77	1	12	4	12	2	1,496	1,618	2,295
Costs of goods sold	237	-	-	-	-	411	-	6	654	2,495
Other	(24)	(55)	(13)	161	18	222	(14)	133	428	155
Loss on disposal of tangible capital assets	147	40	-	(7)	-	9	-	(63)	126	1,435
Bad debts	-	-	-	-	-	-	-	14	14	(183)
Expenses incurred on behalf of Government	-	-	-	-	-	-	-	-	-	(1,092)
Total operating expenses	135,889	66,123	53,168	87,827	41,025	49,705	21,113	212,513	667,363	704,036
Total expenses	135,889	66,123	248,288	87,827	41,025	101,849	21,113	212,911	915,025	847,643
Revenues										
Research services	19,486	5,980	528	15,766	6,026	2,495	-	160	50,441	42,284
Technical services	45,283	4,806	-	2,602	13,163	4,615	4,487	4,574	79,530	104,429
Intellectual property, royalties and fees	22	(320)	-	(543)	(65)	(27)	-	9,388	8,455	8,572
Sales of goods and information products	3,169	-	-	-	(4)	1,223	-	34	4,422	5,171
Rentals	422	(40)	-	12	-	-	-	5,821	6,215	4,987
Grants and contributions	-	38	-	-	-	-	-	2,846	2,884	2,134
Lease inducement revenue	-	-	-	-	-	-	-	2,548	2,548	2,548
Other	(2)	(33)	(9)	59	-	387	(46)	293	649	2,243
Revenues earned on behalf of Government	-	-	-	-	-	-	-	128	128	(1,455)
Total revenues	68,380	10,431	519	17,896	19,120	8,693	4,441	25,792	155,272	170,913
Net cost of operations before government funding and transfers	**67,509**	**55,692**	**247,769**	**69,931**	**21,905**	**93,156**	**16,672**	**187,119**	**759,753**	**676,730**

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 consolidated 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.

Annex to the Statement of Management Responsibility including Internal Control over Financial Reporting (Unaudited)

For the year ended March 31, 2013

1. Introduction

This document provides summary information on the measures taken by NRC to maintain an effective system of internal control over financial reporting (ICFR) including information on internal control management and assessment results and related action plans.

Detailed information on NRC's authority, mandate and program activities can be found in the Departmental Performance Report and Report on Plans and Priorities.

2. Departmental system of internal control over financial reporting

2.1 Internal Control Management

NRC has a well established governance and accountability structure to support departmental assessment efforts and oversight of its system of internal control. A departmental internal control management framework, approved by the Deputy Head, is in place which includes:

- Organizational accountability structures as they relate to internal control management to support sound financial management including roles and responsibilities for senior managers in their areas of responsibility for control management;
- Values and ethics;
- Ongoing communication and training on statutory requirements, policies, and procedures for sound financial management and control; and
- Monitoring and regular updates at least semi-annually on internal control management plus assessment results and action plan to the Deputy Head and departmental senior management, and the Departmental Audit Committee (DAC).

The DAC provides advice to the Deputy Head on the adequacy and functioning of NRC's risk management, control and governance frameworks and processes.

2.2 Service Arrangements relevant to financial statements

NRC relies on other organizations to process certain transactions that are recorded in its financial statements as follows:

Common Arrangements

- Public Works and Government Services Canada (PWGSC) centrally administers the payment of salaries and the procurement of goods and services as per NRC's Delegation of Authority and, provides some accommodations on behalf of NRC;
- Treasury Board Secretariat (TBS) provides NRC with information used to calculate accruals and allowances, such as the accrued severance liability;
- The Department of Justice provides legal services to NRC; and
- Shared Services Canada (SSC) provides IT infrastructure services to NRC in the areas of data centre and network services. The scope and responsibilities are addressed in the interdepartmental arrangement between SSC and NRC.

3. Departmental assessment results during fiscal year 2012-2013

The key findings and significant adjustments required from the current year's assessment activities are summarized below.

3.1 New or significantly amended key controls

In the current year, NRC conducted design and operating effectiveness testing on the key controls of its new Delegated Authority Application (DAA). No significant adjustments were required for the new key controls of the DAA.

NRC's adoption of an industry-focused program-based approach, effective April 1, 2012, has represented a major shift for the organization. This shift brought, amongst other things, significant changes to the revenue business processes. NRC therefore limited its assessment to design effectiveness in 2012-2013 for some revenue business processes.

3.2 Ongoing monitoring program

As part of its rotational ongoing monitoring (OGM) plan, NRC completed its assessment of Entity Level Controls (ELC), Information Technology General Controls (ITGC) and the financial controls within the procurement to payment, transfer payment, capital asset, inventory and payroll business processes.

For the most part, the key controls tested performed as intended, with remediation required as follows:

- Consistent with last fiscal year's assessment, the application of established Section 34 account verification procedures was not applied consistently for transfer payments. Standard operational procedures were further clarified for contribution agreements and procedures were communicated to stakeholders during the year;

- Consistent with last fiscal year's assessment, improvement opportunities with regard to some key financial controls for capital asset processes were identified. A management action plan was developed by the process owner addressing all of the recommendations;

- Certain control issues were found in the inventory for internal consumption area related to segregation of duties, expenditure initiation and approval of adjustments/write-offs. A management action plan was developed by the process owner addressing the recommendations; and

- Significant control issues were found in the payroll area related to segregation of duties. A management action plan was developed by the process owner addressing the recommendations.

Previous year's issues remediation progress

NRC has conducted or is planning the following work to address the adjustments identified during the previous years' assessments:

- *Petty cash:* All petty cash advances were eliminated at NRC in 2012-2013 (completed);
- *Capital assets:* A review of roles and responsibilities for the monitoring requirements of capital assets was performed. NRC centralized most processes to ensure proper controls are in place (in progress);
- *Payroll:* Implementation of remediation actions to address gaps between the NRC and the government of Canada payroll administration framework (deferred to future years due to low risk level);
- *Revenue:* The revenue control framework was streamlined, strengthened and standardized. A continuous review of revenue files was implemented (completed);
- *ITGCs:* Control of access to IT programs and data, IT program changes, backup and recovery of data, and improved audit trail relative to various IT controls (completed);
- *Master data:* Strengthening and standardization of the processes and procedures to maintain master vendor and customer records (in progress); and
- New DAA eliminated most of the unidentified conflicting roles in the financial system (in progress).

4. Departmental action plan

4.1 Progress during fiscal year 2012-2013

NRC continued to conduct its ongoing monitoring according to the previous fiscal year's rotation plan as follows:

Previous year's rotational ongoing monitoring plan for current year	**Status**
ELCs, ITGCs, procurement to payment	Completed as planned and no remedial actions required
Transfer payments, capital assets, inventory, payroll	Completed as planned and remedial actions communicated to process owners with some remedial actions complete and some underway
Revenues, receivables and receipts	Completed design effectiveness re-assessment of some processes with some operating effectiveness testing delayed due to the redesign of processes

In 2012-2013, NRC conducted the following work in addition to the progress made in ongoing monitoring:

- Tested design and operating effectiveness of a new DAA.

4.2 Action plan for the next fiscal year and subsequent years

NRC's rotational ongoing monitoring plan over the next three years, based on an annual validation of the high risk processes and controls and related adjustments to the ongoing monitoring plan as required, is shown in the following table:

	Rotational Ongoing Monitoring Plan for Internal Control over Financial Reporting			
Key control areas	**Frequency**	**Operating Effectiveness Testing Rotation**		
		2013-2014	**2014-2015**	**2015-2016**
ELCs	Every 2 years		√	
ITGCs under departmental management	Every 2 years		√	
Procurement to payment	Annually	√	√	√
Transfer Payments	Annually	√	√	√
Capital assets	Annually	√	√	√
Inventory	Every 3 years			√
Payroll administration	Every 2 years	√		√
Revenues, receivables and receipts	Annually	√	√	√
Financial closing and reporting	Every 3 years			√
Master data – customers / vendors	Every 3 years	√		

In addition to the ongoing monitoring rotational plan, NRC also plans to review remediation actions completed in 2013-2014 in all areas in which issues were noted in section 3. NRC also plans to continue remediation of adjustments identified during its assessments. When new business processes are introduced, or significant internal control process changes occur, NRC will proactively identify, document and test key controls based on associated risks. The results will be incorporated into the assessment plan and the ongoing monitoring program.