

**NRC CNRC**

From *Discovery*  
to *Innovation...*

Science  
— at work for —  
Canada

National Research Council Canada

# **Annual Report**

## **2007–2008**

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National Research  
Council Canada

Conseil national  
de recherches Canada

Canada

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## Raison d'être

The National Research Council (NRC) is the Government of Canada's leading resource for science and technology (S&T) and innovation with a business focus on:

- improving the social and economic well-being of Canadians;
- fostering industrial and community innovation and growth through technology and industry support; and
- supplying excellence and leadership in research and development (R&D).

## Mobilizing Science and Technology to Canada's Advantage through NRC

NRC is moving forward with an important role in helping to achieve the goals of the Government of Canada's Science and Technology Strategy, *Mobilizing Science and Technology to Canada's Advantage*, announced by the Prime Minister in May 2007. The new federal S&T Strategy sets out a multi-year framework to create a competitive advantage for Canada through S&T. It focuses on the principles of promoting world-class excellence, focusing on priorities, fostering partnerships and enhancing accountability. It sets out a plan to foster three distinct S&T advantages for Canada:

- **Entrepreneurial Advantage** – translating knowledge into commercial applications for greater wealth generation and quality of life;
- **Knowledge Advantage** – being at the leading edge of important developments that generate health, environmental, societal and economic benefits;
- **People Advantage** – attracting highly skilled people and educated people for a flexible workforce that can compete globally.

NRC's own Strategy to 2011, *Science at Work for Canada*, is consistent with these principles and objectives and establishes NRC as an important vehicle to help deliver on the new federal S&T Strategy. NRC is enhancing Canada's Entrepreneurial Advantage by meeting the needs of industry for targeted research and by transferring its discoveries to the private sector. To support Canada's Knowledge Advantage, NRC is strategically contributing to the four research priority areas identified in the federal S&T Strategy: environmental science and technologies; natural resources and energy; health and related life sciences and technologies; and information and communication technologies (ICT). NRC will anticipate and respond to important national priorities by engaging innovation system participants in multi-stakeholder collaborations and developing key competencies that will prepare NRC to support Canada's current and future S&T priorities. Lastly, but critically important, NRC is supporting the People Advantage, by attracting and retaining highly-skilled workers needed to thrive in a global economy. Through establishing entities such as the National Institute for Nanotechnology (NINT) and the NRC Institute for Nutrisciences and Health (NRC-INH), for example, NRC is helping to build strong multidisciplinary teams of international calibre researchers to deliver leading-edge work for Canada.

## Departmental Priorities

1. R&D in Key Sectors and Areas Critical to Canada's Future	2. Community Technology Clustering Initiatives	3. Integrated Industry Support that Engages Key Players
<ul style="list-style-type: none"> <li>• Create value through R&amp;D in sectors with the greatest impact for Canada</li> <li>• Invest in leading-edge research, including increased horizontal and multi-disciplinary R&amp;D</li> <li>• Build sustainability through research in areas critical to Canada's future</li> <li>• Support Canadian industry and research community through codes, standards, and investments in large-scale R&amp;D infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• Contribute to the economic viability of Canada's communities</li> <li>• Help connect industry and key innovation players</li> <li>• Focus on cluster growth to create critical mass and build community innovation capacity</li> <li>• Develop a medium for regional delivery of national initiatives</li> </ul>	<ul style="list-style-type: none"> <li>• Increase innovation capacity of SMEs and help industry manage risks as new products are developed and marketed</li> <li>• Offer S&amp;T information and intelligence to industry</li> <li>• Offer comprehensive commercialization support, including technology transfer and IP management</li> </ul>
<b>4. Program Management for a Sustainable &amp; Agile Organization</b>		
<ul style="list-style-type: none"> <li>• NRC Strategy: <i>Science at Work for Canada</i></li> <li>• Address Management Accountability Framework commitments</li> <li>• Continue to address recommendations of the Auditor General of Canada</li> </ul>		

## Operating Environment

NRC has unique attributes that shape its operating environment, including:

- A national S&T infrastructure positioned to improve Canada's innovation capacity in existing and emerging fields of research, build networks for researchers and businesses, train highly qualified personnel, create new technology-based companies and jobs and transfer knowledge and technology to Canadian companies.
- A core strength of over 4,000 talented and dedicated people, 17 research institutes, 15 industrial partnership facilities, the Industrial Research Assistance Program (NRC-IRAP), the Canada Institute for Scientific and Technical Information (NRC-CISTI) and two technology centres.
- The ability to help companies move from discoveries in the laboratory to the development, prototyping and commercialization of these ideas and technologies for the global marketplace.
- The capacity to adopt an integrated approach that brings research, technologies and industrial links together to provide access to international S&T infrastructures.
- The skills to manage research projects towards specific outcomes as well as long-term goals.
- The capability to bring together multi-disciplinary research teams to tackle issues of national importance.
- The ability to put together national programs for delivery in regions across the country.

## Overall Performance

The following section summarizes NRC'S overall performance in relation to its 2007-08 priorities.

### 1. R&D in Key Sectors and Areas Critical to Canada's Future

Research and innovation are critical to Canada's future economic growth and an improved quality of life for Canadians. As Canada's foremost R&D agency, NRC concentrates its efforts on two vital elements of R&D excellence: quality and relevance. In 2007-08, NRC played a key role in helping Canada reach its full potential by performing research in fields that are of current and future importance from a social and economic perspective, in line with the federal S&T Strategy.

NRC's R&D provided Canadian companies with increased access to new technologies through patents and licences, creating an Entrepreneurial Advantage for Canada. In 2007-08, NRC R&D led directly to the creation of intellectual property (IP), with 196 patents applied for during the year and 69 patents obtained from applications made in previous years. NRC also signed 98 new technology licensing agreements with industry, contributing to the flow of innovation into business applications. These activities contributed to the program activity's expected result of advancement of new technology-based companies. NRC researchers published technical reports, presented papers in conference proceedings and produced technical reports for clients during the year, disseminating knowledge for innovation and long-term value creation for Canadian industry and the public at large.

NRC's leadership standing in new and emerging research domains remained high. To contribute to Canada's S&T Knowledge Advantage, NRC conducted research in areas of economic and social importance. From an economic perspective, investment and research in aerospace technology such as composite material aircraft components and turbine engine icing certification has kept Canada among the world leaders in this sector. Nanotechnology R&D at NRC resulted in advances to extend the service life of concrete and established novel approaches to nano-engineering of concrete structures. Improved materials, catalysts and advanced modeling and testing methods continued to solidify Canada's position at the leading-edge of fuel cell technology.

NRC also completed R&D activities that contributed to the well-being of Canadians. Genome research is ongoing in areas such as food production (e.g., productivity of canola crops) and treating of human and animal disease (e.g., cancer identification, diagnostic tools for heart attack patients, controlling human cholesterol levels). NRC researchers also conducted research in the areas of bioactives and nutraceuticals. Extracts and bioactives from such plants as cranberries, blueberries, hemp, hops and poppies were screened and evaluated for anti-oxidant, neuro-regeneration and anti-cancer effects. Novel techniques using magnetic resonance imaging (MRI) technology were developed and tested with positive results. These will eventually lead to less invasive diagnosis of breast cancer. R&D work was also completed to develop analytical methods for rapid and

highly sensitive detection of chemical warfare agents, toxic agrochemicals and other toxins, to enhance the security of Canadians.

Collaborating with industry and academia to further scientific frontiers was also a cornerstone activity for NRC during the reporting period. Major contributions in astronomy, sub-atomic particle physics and neutron beam experiments were made. NRC also continued to work with international standards bodies, ensuring compatibility of Canada's National Metrology Standards with those around the globe, assisting in the development of new measurement science (e.g. nanotechnology) and determining standards and methods of measurement that impact directly on the ability of Canadian firms to trade internationally.

## **2. Community Technology Clustering Initiatives**

In support of Canada's S&T Knowledge Advantage, NRC continued to explore and develop innovative models for S&T partnership and collaboration between federal departments and agencies and other sectors. During the reporting period, NRC was involved in the ongoing development of 11 technology clusters across the country. Technology clusters are community partnerships focused on building competitive advantage through research and innovation. NRC helped clusters develop technology road maps and fostered alliances that are being used to transfer technology to the cluster participants. These clusters focus on areas such as life sciences, information technology and e-business, ocean technology, aluminium transformation, photonics, biomedical technologies, plants for health and wellness, nanotechnology, fuel cell and hydrogen technology, nutrisciences and health, and sustainable infrastructure. Priority 2 contributes to the achievement of NRC's Strategic Outcome by fostering innovation and economic growth through community partnerships.

To contribute to increasing the impact of federal business R&D assistance programs, NRC-IRAP engaged and linked regional groups, through development of technical, financial and business networks that are the foundation of technology clusters. Over \$1.5 million was contributed to 45 innovation support organizations within six of the technology clusters in which NRC is involved and nearly \$1.3 million in non-repayable contributions were made to 30 individual firms within the clusters, toward technological research projects. Examples of cluster successes during the year include a \$40 million initial public offering (IPO) of IMRIS Inc., a spin-off of NRC Institute for Biodiagnostics (NRC-IBD) within the Manitoba Biomedical cluster and filing of a patent on a biomarker for prostate cancer jointly between NRC-IIT and the Atlantic Cancer Research Institute, from the New Brunswick information technology cluster.

NRC also continued to develop, build and operate Industry Partnership Facilities (IPFs) across Canada, providing unique facilities that are workplaces for collaborative research and incubation of new firms, including NRC spin-offs. IPFs also serve as resource locations for small- and medium-sized Enterprises (SMEs) and new enterprises. NRC currently has 15 IPF locations across the country, supporting 140 incubating firms in 2007-08, an increase of 10% from the previous reporting period.

### **3. Integrated Industry Support that Engages Key Players**

In 2007-08, the NRC Technology and Industry Support (TIS) portfolio worked closely with the NRC R&D portfolio to support the Government of Canada's commercialization priority under the Entrepreneurial Advantage. Activities to increase the commercialization of research include technology licensing, provision of pre-commercialization assistance, mentoring and provision of business intelligence, access to national and international networks, knowledge dissemination and expertise, as well as helping companies create new products and/or technologies.

Industrial Technology Advisors (ITAs) from NRC utilized in-house developed capabilities to capture competitive technical intelligence to support Canadian industry. This facilitated better decision making on technology investments and research directions for NRC clients. An assessment completed during the year indicated that over the previous five years, NRC-IRAP client firms' sales grew an average of 28% and overall firm employment grew 30%, with company assets growing by 15%.

NRC provides access to S&T information and intelligence to industry, with sophisticated tools and services to accelerate discovery, innovation and commercialization within Canada's research and innovation community. During the reporting period, NRC completed 485,000 document orders for clients in the academic, health, government and industry sectors. A new suite of services, under the *Discover* banner, was launched to provide Canadians with faster and easier access to over 15 million S&T articles in the collection. The NRC Virtual Library provided NRC institute researchers with desktop access to licensed electronic journals and databases, with 258,000 site visits accumulated during the year. NRC continued to publish scientific journals, which have over 13,900 subscribers in 101 countries. In 2007-08, 6,192 authors were published in 16 respected, peer-reviewed journals. NRC published five books during the year, with another nine in production.

### **4. Program Management for a Sustainable Organization**

Performing leading-edge R&D and supporting Canadian industry to become more technology intensive and innovative requires state-of-the-art equipment and infrastructure, as well as highly skilled scientists, engineers, technicians and other professionals. During the reporting period, NRC established its corporate business plan for the next three fiscal years. The plan outlines an approach to enhance the financial flexibility of NRC, while ensuring financial and non-financial resources are aligned in support of the organization's priority programs. NRC initiated a new organizational resource allocation process during the fourth quarter of 2007-08, requiring all institutes, programs and branches to develop and submit business plans annually. Funding of initiatives was based on the alignment of individual business plans with the corporate plan and the requirement to help NRC deliver on its priorities and the federal S&T Strategy.

Significant investments in S&T infrastructure were also made during the year. Approximately \$5.7 million was invested to address the most pressing infrastructure needs, focusing on health and safety, as well as asset life-cycle management. NRC also continued to invest in internal audit capacity, to assist in maintaining accountability across its program delivery. Five internal audits were conducted during the period and six more initiated. The independent Audit, Evaluation and Risk Management Committee, a sub-committee of NRC Council, which is comprised of members external to NRC, reviewed these reports. From an external audit perspective, NRC is currently addressing the recommendations provided by the Office of the Auditor General (OAG).

## **Performance Indicators**

In 2007-08, NRC played a key role in helping Canada reach its full potential by performing research in fields that are of current and future importance to the Canadian economy and that addressed important public and Government priorities. To achieve this, NRC worked in collaboration with industry, university and government partners in Canada and abroad. Creating value from knowledge, providing a national S&T infrastructure, maintaining and fostering international alliances and supporting the commercialization of federal R&D are integral parts of NRC's business.

## **New Patents**

A new patent is a key step in the continuum from discovery to innovation. The strategic management of IP contributes to the innovative capacity of firms. In 2007-08, NRC applied for 196 new patents and secured 69 patents from applications made in previous years. Forty-nine percent of these were issued in the U.S., an Organisation for Economic Cooperation and Development (OECD) recognized measure of competitiveness. Based on a 2003 benchmarking study of best practices in IP management, conducted internally, NRC changed its approach to screen disclosures early; conduct market research and patent analysis assessments; and regularly review its IP portfolio to generate, identify and develop more "high potential commercial value" IP.

## **Licensing Agreements and Revenues**

By negotiating a licence agreement to use NRC technology, an industrial partner endorses the merit of NRC research and these agreements show a direct flow of innovation into business application. NRC entered into 98 new licence agreements in 2007-08 and IP licensing revenue was \$9.47 million.

Just over \$4.1 million of IP revenue in 2007-08 was attributed directly to the Meningitis-C vaccine developed by the NRC Institute for Biological Sciences (NRC-IBS). The Institute for Research in Construction (NRC-IRC) received approximately \$2.0 million from several provinces for the use of information published as part of the National Building and Fire codes and used in individual provincial codes.



Some other examples of NRC technology licensed to industry in 2007-08 include:

- NRC Institute for Aerospace Research (NRC-IAR) signed a licensing agreement with Standard Aero Limited for non-destructive evaluation (NDE) methods and associated component life assessment techniques, used in gas turbine engines. This licence increased the capabilities of a medium to large Canadian firm in supplying services to the international engine repair market.
- The SIGDERS Dynamic (testing) Roofing Facility Unit was licensed by NRC-IRC to Les Laboratoires Shermont in April 2007.
- NRC Industrial Materials Institute (NRC-IMI) licensed low-coherence light interferometry scanner technology to Biocad Inc., for facilitating the installation of dental implants. Biocad has grown in both revenue and employment, and has recently signed several marketing agreements with U.S and European partners.
- Tecnar Automation Ltd., one of the first NRC-IMI spin-offs, was granted a licence for technology to conduct real-time analysis for improving the quality of galvanized steel plates used in the automotive industry.
- NRC-IAR transferred AMTC RTM technology capabilities to Delastek, a Canadian SME. This transfer permitted Delastek to become the first RTM aerospace grade parts manufacturer in Canada, moving from the production of recreational vehicle parts to aerospace components.

Patents, licence agreements and collaborative research agreements can be used to help demonstrate the commercialization outcomes of NRC's R&D and their contribution to an Entrepreneurial Advantage for Canada.

### **NRC Spinoffs or New Ventures**

When NRC develops a technology with particularly strong market potential and there is no Canadian receptor capacity identified, entirely new companies may be created to commercialize the technology. These new companies create innovative products and services for the global marketplace and new jobs for Canadians. In 2007-08, the total new companies created since 1995 remains at 68, accounting for approximately 552 full-time jobs and an estimated \$470 million in cumulative investment, an 8% increase from last year. In 2007, investment from all sources into NRC new companies was \$87 million.

### **Publications in Refereed Journals, Proceedings and Technical Papers**

Scientific papers in leading peer-reviewed publications and conference proceedings are traditional internationally recognized measures of research quality and relevance. They are also a key tool for the dissemination of knowledge and the eventual creation of value for Canada in the long-term. NRC has consistently produced over a thousand peer-reviewed publications each year over the last five years. In 2007-08, researchers published 1,330 articles in refereed journals. NRC researchers also presented 821 papers at S&T conferences and produced 1,541 technical reports for clients.

## Research Networks and Centres of Excellence

NRC's research excellence is also evident in the involvement of its researchers in multi-researcher networks and centres of excellence as well as the number of externally funded, peer-reviewed research grant proposals. In 2007-08, NRC researchers participated in 118 research networks, held 217 positions on editorial boards of scientific journals and were appointed to 473 adjunct professorships in Canadian universities. In 2007-08, NRC researchers and their university partners received 207 grants from Canadian granting agencies (such as NSERC and Genome Canada). The total of these grants, over the lifetime of the projects, equalled \$29.3 million.

## International Collaborative Agreements

In addition to working with university partners, NRC signed 407 new collaborative research agreements with Canadian partners worth a total of \$159 million in 2007-08. The total value over the lifetime of these agreements grew to \$493 million. The number and value of collaborative agreements signed during a year are indicators that foretell increased research activity. NRC's Canadian partners invest \$3.10 for every dollar NRC invests.

Participation in international projects and consortia exposes Canadian students, researchers and companies to the best-in-the-world capabilities. In 2007-08, NRC signed 118 new collaborative research agreements with international partners worth \$109 million. The total number of active international collaborative agreements is similar to last year's number, with a total value over the lifetime of the agreements of close to \$174 million. NRC's international partners invest \$3.41 for every dollar NRC invests.

The NRC 2007-08 Departmental Performance Report (DPR) provides additional highlights.

## NRC's Link to the Government of Canada Outcome Areas

### Strategic Outcome:

An innovative, knowledge-based economy for Canada through research and development, technology commercialization and industry support

NRC's Research and Development Program Activity contributes to an innovative and knowledge-based economy by undertaking, assisting and promoting scientific and industrial research. NRC is the federal government's primary provider of research and research facilities. It pursues cutting-edge R&D that supports the growth of Canadian industry and uncovers solutions to national challenges in health, climate change, the environment, clean energy, and other fields. NRC identifies Canada's S&T opportunities and adapts its scientific research and development activities to meet national needs and priorities.

NRC's Technology and Industry Support Program Activity contributes to strong economic growth through its industry and commercialization support. NRC provides Canadian companies with access to the program's leading-edge knowledge and technology through collaborative agreements and partnerships; and opportunities to commercialize products and services by licensing the use of NRC's patents. Leading-edge technology opens new markets to Canadian companies and provides them with a competitive advantage in the world market. A strong domestic economy benefits Canadians.

In addition, NRC contributes indirectly to the Government of Canada outcome areas: A Clean and Healthy Environment and Healthy Canadians. Environmental stewardship is driven through policy and technological capability. NRC conducts leading-edge research in alternative energy technologies, such as fuel cells and hydrogen and contributes to advanced and efficient manufacturing within the automotive and aerospace sectors. R&D activities centering on oceans and bioremediation contributed toward a sustainable healthy environment for Canadians and the entire world. NRC contributes to improving the health of Canadians through R&D activities targeted at nutraceuticals, pharmaceuticals and innovative medical diagnostics and treatment protocols. Harnessing the characteristics of plants for improving health is a growing field and NRC research is helping Canadian companies along this path.

# **Financial Statement Discussion and Analysis**

## **Introduction**

The following Financial Statement Discussion and Analysis (FSD&A) should be read in conjunction with the audited financial statements and accompanying notes for the National Research Council of Canada (NRC) for the fiscal year ended March 31, 2008.

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) for 2007-08.

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

### **Special note regarding forward-looking statements**

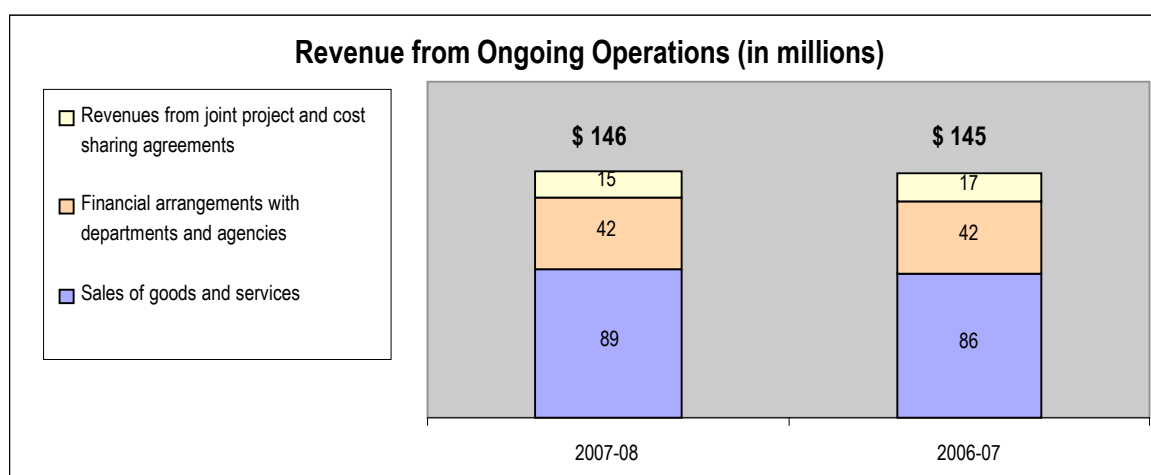
The words "estimate", "will", "intend", "should", "anticipate" and similar expressions are intended to identify forward-looking statements. These statements reflect assumptions and expectations of NRC, based on its experience and perceptions of trends and current conditions. Although NRC believes the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

# 2007-2008 Highlights

## Financial Highlights

### Statement of Operations

**Revenue:** Revenue is important to NRC, not only as a means of financing its operating and capital expenditures, but also because it provides an indication of the value that NRC provides to its clients and collaborators. NRC earned total revenues of \$155 million in 2007-08. Although total revenue decreased from \$170 million in 2006-07, the reduction is not due to ongoing operations but rather to unusual revenue related issues. Sales of goods and services, revenue from other government departments excluding revenue adjustments related to the Technology Partnerships Canada (TPC) program, and revenue from joint project and cost sharing agreements totalled \$146 million in 2007-08, as compared to \$145 million in 2006-07.



Further details on revenue components are available in the Financial Analysis section.

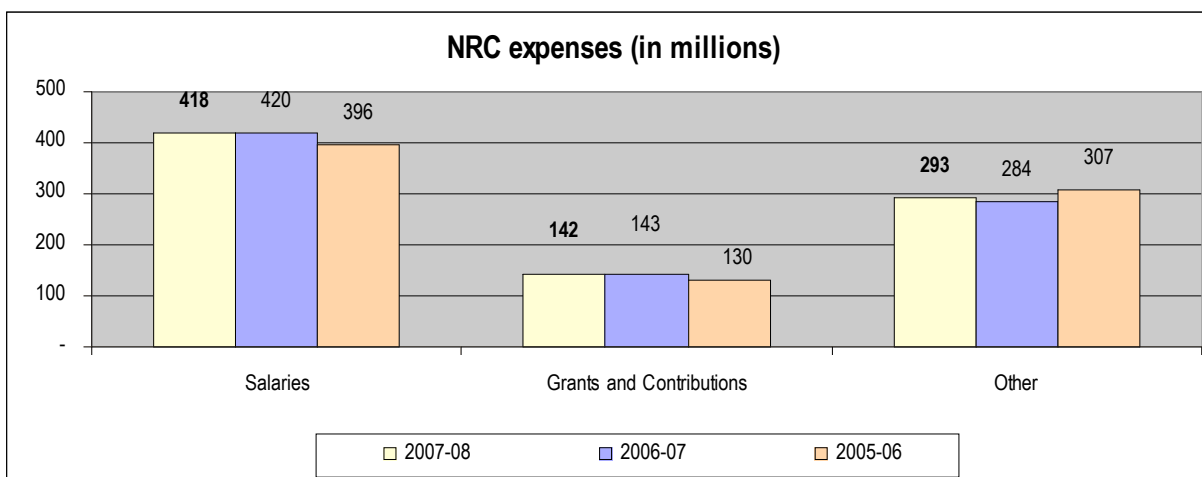
**Expenses:** Over the past three fiscal years, NRC's total expenses have not significantly increased. In fact, NRC has only had a 2.3% rise in expenses since 2005-06. Furthermore, NRC's major expense components have remained stable, as seen in the diagram provided below. The following two categories of expenses are most important to NRC from both a research program and cost perspective, and represent 66% of total expenses. All other significant expense variations are explained in the Financial Analysis section.

- Personnel:** NRC's total expenses, as detailed in the Notes to the Financial Statements, are made up of 49% in salaries and employee future benefits. Personnel costs represent the most significant cost driver for NRC. Salaries and employee future benefits decreased to \$418 million in 2007-08 from \$420 million in 2006-07. Normal salary pay increases in 2007-08 are mainly offset by an extraordinary charge in 2006-07 amounting to \$11.6 million for the Research Council Employees' Association pay equity settlement for compensation of lost

wages and interest to eligible employees employed between April 1, 1989 and March 31, 1999, as well as a retroactive pay increment cost due to the ratification of three collective agreements.

Furthermore, included in NRC's total salaries and employee future benefits are expenses related to a realignment exercise which occurred in 2007-08. This exercise, while difficult, was completed to better align resources with the NRC strategy and to better position NRC for the future.

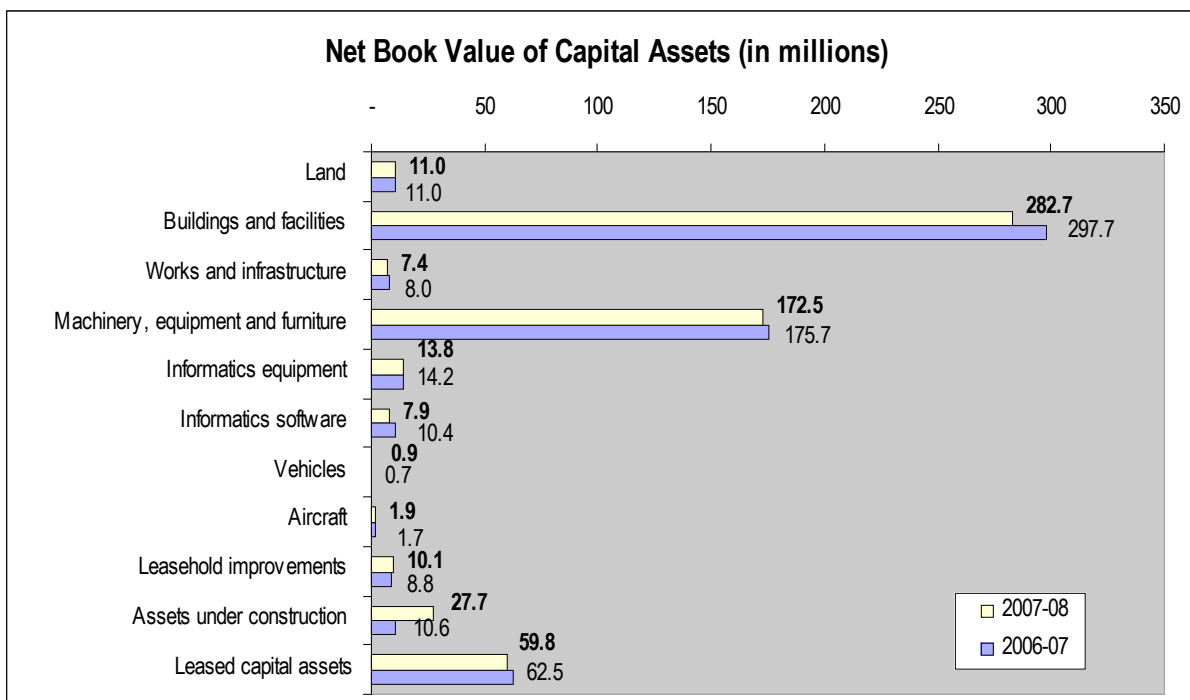
- **Grants and Contributions:** Grants and contributions remained relatively steady in 2007-08. NRC made total net contributions of \$142 million in 2007-08, as compared to \$143 million in 2006-07. Net contributions from NRC Industrial Research Assistance Program (NRC-IRAP) (\$80.6 million) and contributions to the TRIUMF laboratory for particle and nuclear physics (\$51.5 million) comprise 93% of the contributions made by NRC in the current fiscal year. In addition, contributions made through NRC Herzberg Institute of Astronomy (NRC-HIA) to support international telescopes (\$9.2 million) make up the majority of the remaining balance.



## Statement of Financial Position

**Assets:** NRC's total assets signify its ability to provide future services for Canadians. NRC's total assets as at March 31, 2008 totalled \$851 million. NRC's largest single component is its capital assets, which represents 70% of the total. The following assets are highlighted to demonstrate NRC's activity with private and public sector clients.

- **Capital Assets:** In 2007-08, NRC acquired and or constructed \$60.9 million in capital assets, which brings NRC's total capital asset net book value to \$596 million. NRC's infrastructure is an important element for the successful delivery of its mandate; as such re-investments in capital assets are crucial. NRC's largest components of capital investments, as seen in the diagram below, are research buildings and facilities as well as machinery and equipment. Combined, they account for over 75% of the net book value of the capital investments.



- **Accounts Receivable:** At any given time, NRC has a significant amount of accounts receivable given that NRC finances a considerable amount of its operating and capital expenditures from external revenue. As at March 31, 2008, NRC's accounts receivable totalled \$27.4 million (\$26.9 million as at March 31, 2007).
- **Inventory for resale and consumption:** Both inventory for resale of \$2.3 million and inventory for consumption of \$2.4 million present NRC's future service potential. Inventory for consumption represents inventory which will be used internally by NRC in order to administer its research programs, whereas inventory for resale is marketed in its current state to customers.

**Net debt:** The government's net debt position is often called its "future revenue requirements" because this indicator provides a measure of the future revenues required to pay for past transactions and events. NRC's net debt (*financial assets less liabilities*) as at March 31, 2008 reached \$71 million, which represents a slight decrease of \$1 million from the previous fiscal year. The decline in net debt signifies that NRC's future revenue generation needs have decreased by 1.4%. Furthermore, the current year's decline in net debt demonstrates that NRC's revenues earned in 2007-08 sufficiently covered NRC's total incremental spending, inclusive of its capital spending.

**Equity of Canada:** NRC's equity of Canada as at March 31, 2008 was \$541 million (\$544 million as at March 31, 2007), which illustrates NRC's net resources (financial and non-financial) that will be used to provide invaluable future services for Canadians. NRC's equity of Canada is comprised of its Non-Financial Assets (\$612 million) less its Net Debt (\$71 million). NRC's largest component of Non-Financial Assets is capital assets.



## Non-Financial Highlights

**NRC Strategy 2006-2011:** NRC continued implementation of its strategy, *Science at Work for Canada* and contributed to the advancement of the federal S&T Strategy. Following are some key achievements that were realized during the fiscal year:

- To help foster an Entrepreneurial Advantage, NRC developed initial plans for four of the identified NRC Key Industry Sectors (Aerospace, Construction, Information and Communication Technologies, Manufacturing and Materials). These sectors are of economic importance to Canada and their plans targeted research priorities of the federal S&T Strategy;
- To position Canada at the leading edge of important health and life science developments, and in keeping with one of the Strategy's core principles – partnerships – NRC created a National Bioproducts Program plan (to be co-led by NRC and Agriculture and Agri-Food Canada), including proposed areas of R&D focus;
- Guided by core principles of the federal S&T Strategy, NRC launched a cross-NRC initiative in Nanotechnology and developed a plan for a cross-NRC initiative in Advanced Materials, targeting both basic and applied research in this emerging and strategic opportunity area;
- To promote collaborative approaches, NRC began securing key third-party relationships in support of NRC National Programs and Key Industry Sectors of national interest from a social and economic perspective;
- Implemented a new NRC-wide business planning process and realigned organizational resources to more effectively support NRC program priorities as well as the priorities and directions in the federal S&T Strategy;
- Initiated facilities/equipment and information technology assessments to better understand long-term infrastructure investment requirements and identify opportunities for efficiency gains; and
- Launched a Central Business Services Office to help NRC better address client needs.

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

In 2007-08, an updated Statement on the Role of Council was approved by members in order to incorporate greater input on strategic financial management. Consequently, NRC's Executive Committee will assume responsibility for strategic financial advice in current year budget reviews, including initial budget allocations; financial situation arising from NRC's multi-year plans; NRC's long term capital plan; and other matters that may have a significant impact on NRC's budget.

In 2007-08, NRC progressed in its implementation of the financial management model which holds the Chief Financial Officer (CFO) accountable to both the Comptroller General and the department head for financial management in the organization. The model was first introduced by NRC in 2005-06 as a result of recommendations provided for all federal government departments by the Office of the Comptroller General.

In 2007-08, all NRC Institutes/Branches/ Programs (IBP) were asked to develop rolling three-year business plans aligned with the NRC Strategy and the federal science and technology strategy. These business plans will be updated on an annual basis to reflect changing internal and external factors, as well as the ongoing decisions and priorities of both the federal government and the NRC Senior Executives. The business planning process not only supports ongoing NRC strategic planning efforts, but also serves as the organization's key mechanism for financial resource allocation decisions (which are made by the Senior Executive Committee of NRC). The information contained in the business plans is expected to help NRC with its efforts in financial planning and budgeting, long-term capital planning (including real property), human resource planning, and information technology planning. Finally, the business plans serve as a critical vehicle for NRC-wide communication, helping senior managers to identify opportunities for greater cross-NRC collaboration.

**Financial Statement Audit of NRC:** In 2007-08, NRC's financial statements were prepared in accordance with Treasury Board accounting policies and year-end instructions issued by the Office of the Comptroller General, which are consistent with Canadian generally accepted accounting principles (GAAP) for the public sector. The financial statements were audited by the Office of the Auditor General. The audit provides added assurance with regards to the accuracy and completeness of NRC's financial information, therefore providing NRC's Council and senior management team with reliable information, from which strategic decisions can be taken.

**Renewal of Terms and Conditions:** In 2007-08, NRC-IRAP renewed the Terms and Conditions of its most significant transfer payment program (\$72.5 million in expenses in 2007-08) for a period of 5 years. As such, Canada's small and medium sized enterprises will continue to receive essential technological and financial contributions from NRC, therefore increasing Canada's ability to innovate and maintain its presence within the global market place.

**Audit of NRC-IRAP contribution recipients:** In 2007-08, the audit completed on sample recipients of contributions from NRC-IRAP showed improved compliance with program requirements. In 2007-08, 87% of the contribution agreements audited received an unqualified audit opinion. This is a significant improvement from previous years, where unqualified audit results amounted to 54% in 2006-07 and 38% in 2005-06. A major contribution for this year's success is due to NRC-IRAP's recent implementation of a new financial monitoring framework which incorporates risk assessments prior to the commencement of, and during, each project.

## Discussion and Analysis

### Risks & Uncertainties

As a federal government departmental corporation, NRC funds the majority of its salary, operating and capital expenditures from parliamentary appropriations. The non-salary portion of this funding is fixed, with no indexing for price increases. As a result, the actual funding for NRC, in terms of buying power, has been declining over the past decade. In particular, the impact of rising costs related to payment in lieu of taxes and utilities is significant for NRC.

NRC owns and manages 185 specialized buildings that comprise approximately 560,140 square meters of space. It also has an equipment and informatics base of approximately \$197 million (\$203 million in 2006-07) net book value. NRC's capacity to fund the upgrade or replacement of these assets from its appropriations is limited, and as a result will need to secure sources of funding external to NRC for this purpose.

In addition, since 2004, the federal government has announced a series of budget reductions across federal departments as part of its realignment strategy and initiative to increase its efficiency. The impact on NRC has been significant and challenging. The cumulative reductions to date have amounted to \$33.3 million, with a minimum expected ongoing reduction of \$12.9 million per year. On a short-term basis, NRC has adapted to these changes by reducing investments in certain programs.

To help position itself to meet these challenges, NRC has implemented changes in its governance structure since 2005-06 and has made significant progress towards a new, focused business strategy. In order to continuously improve the planning, allocation and monitoring of resources, NRC implemented an annual IBP business planning process in 2007-08.

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

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

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

Currently, NRC has several initiatives and projects funded on a sunseting basis. Examples include the following:

- **Technology Cluster Initiatives funding:** Since its inception in 1999, NRC has received approval to spend a total of \$598 million in technology cluster initiatives funding. To date, NRC has spent \$475 million. The funding for all of NRC's technology cluster initiatives terminates in fiscal year 2009-10, at which point NRC must request additional support from the federal government.
- **Astronomy funding:** The funding for Phase I of Canada's Long Range Plan for Astronomy and Astrophysics (LRP) ended on March 31, 2007. Since its end, NRC has provided interim financing. A total of \$97.5 million over five years is required for the LRP Phase II in order to maintain Canada's contribution to existing offshore telescopes and to pursue on-going LRP

projects. Investing in the LRP Phase II could have additional future investment implications starting in 2010 depending on the government of Canada's decisions regarding its future role in the astronomy LRP Thirty Meter Telescope (TMT) and the Square Kilometer Array (SKA) projects.

- **Genomics R&D Initiatives funding:** In 2007-08, NRC sought approval to renew the Genomics R&D Initiatives, which includes NRC as well as 5 other federal government departments. Total funding requested amounts to \$19.9 million until fiscal year 2010-11.

**Foreign Currency:** NRC purchases roughly \$55 million per year in goods and services in currencies other than the Canadian dollar, which exposes NRC to fluctuations in foreign exchange. The majority of foreign purchases (89% on average over the last five years) are transacted in US dollars. Due to the strengthening of the Canadian dollar over the last year, NRC has benefited from an increase in purchasing power over 2006-07 levels of approximately \$4.2 million US. A continued strong Canadian dollar relative to the US dollar will benefit NRC's purchasing power, whereas a future decline in the Canadian dollar will have the opposite effect.

The 2007-08 gain in purchasing power was somewhat negated by the reduction in Canadian dollars received from foreign sales. In 2007-08, NRC received \$34 million CDN on sales of \$32.9 million US. By way of comparison, in 2006-07, NRC received \$33.8 million CDN from \$29.5 million US in sales.

**Dependence on Revenue:** The nature of NRC's activities permits NRC to generate revenues in order to reinvest in its operations. NRC's dependence on external sources of funding has been growing since the early 1990s. The portion of NRC's operating and capital expenditures funded from external sources of income was roughly 11% in 1991-92. In 2007-08, this percentage had climbed to over 24%.

In particular, NRC maintains technology centres that rely on external sources of revenue to fund the majority of their operations, namely NRC Centre for Surface Transportation (NRC-CSTT) and NRC Canadian Hydraulics Centre (NRC-CHC). In addition, NRC's two largest institutes – NRC Institute for Aerospace Research (NRC-IAR) and NRC Canada Institute for Scientific and Technical Information (NRC-CISTI) – rely on external sources of revenue to fund over 45% and 35% of their operations respectively. Significant downturns in the industries or federal departments that these groups support will greatly impact NRC's ability to continue operations at current levels.

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

## Financial Analysis

The following is an analysis that explains the meaning of certain financial statement items, significant variances, and financial trends.

### Assets

***Due from Consolidated Revenue Fund:*** This amount represents the amount of cash that NRC is entitled to draw from the federal government treasury. This includes cash to discharge its liabilities for which NRC has already received an appropriation, as well as revenue received but not spent. The \$3.2 million decrease between 2006-07 and 2007-08 is due to the decrease in revenue available for use in subsequent years.

### ***Accounts Receivable:***

#### *NRC-IRAP TPC Repayable Contributions*

The NRC-IRAP Technology Partnerships Canada (TPC) program has been administered by NRC on behalf of Industry Canada since 1998. This program provides conditionally repayable contributions to small and medium-sized enterprises (SMEs) to support the pre-commercialization phase of their technology development. This conditional repayment program in most cases requires quarterly repayments of the contribution based on a percentage of the recipient's gross revenue. This program terminated March 31, 2006, although it will continue to fund, and require repayment from existing agreements during its wind-down phase.

This program supports small start-up firms, whose future success is often entirely dependent on one technology. Failure to bring the technology to market, at times, can result in the firm ceasing operations. Even with the very high-risk nature of this program, NRC has received repayments amounting to approximately 25% of contributions disbursed as at March 31, 2008 (20% – 2007). With 280 projects still being administered, this percentage is expected to increase over the next decade.

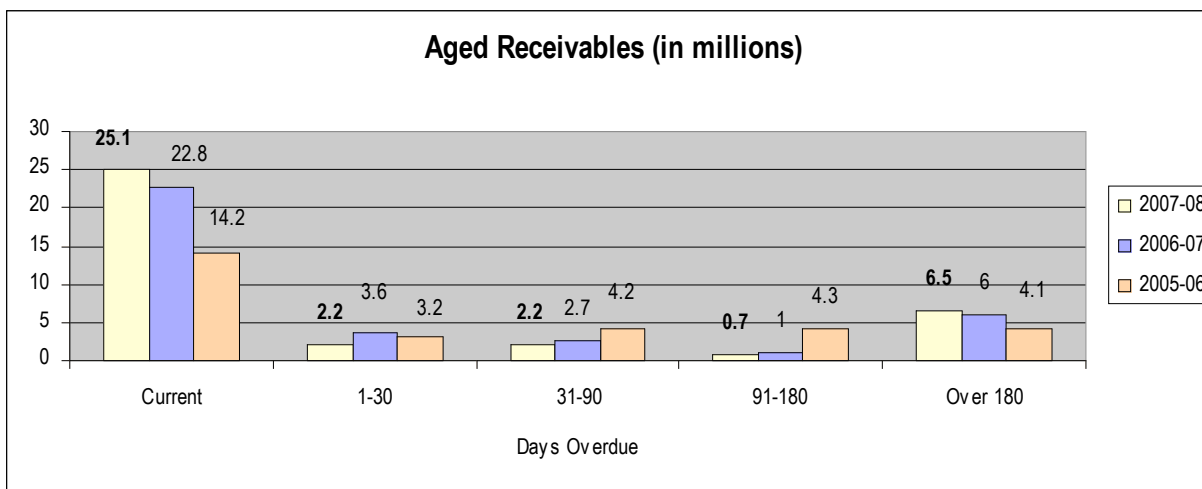
The NRC-IRAP TPC accounts receivable as at March 31, 2008 was \$9.9 million (\$10.7 million - 2007) with a corresponding allowance for doubtful accounts of \$8.3 million (\$7.1 million - 2007), highlighting the high risk nature of the program.

#### *Trade Receivables and NRC-IRAP Audit Recoveries*

NRC had accounts receivable with external clients worth \$20.9 million as at March 31, 2008 (\$19.6 million - 2007) with a corresponding allowance for doubtful accounts equal to \$1.1 million (\$2.2 million - 2007). This amount represents receivables for work done with external clients as well as receivables for audit findings for NRC-IRAP. Write-offs in 2007-08 were \$938 thousand (\$603 thousand in 2006-07), which is low given the total value of NRC revenue.

### *Aged Accounts Receivable*

In 2007-08 and 2006-07, 80% of accounts receivable are aged 90 days or below. NRC has successfully focused on collecting its outstanding receivables. The aging of all accounts receivable, gross of allowances, as at March 31 is as follows:



**Inventory for Resale:** NRC produces a number of products that are purchased by external clients, namely the Model National Construction Codes, monographs and certified reference materials. Inventory for resale is presented at its lower of cost or net realizable value and has decreased by \$545 thousand (19%) over 2007 closing values. The decline is due to an increase in the allowance for obsolete inventory, increased by \$500 thousand to \$1.1 million in 2007-08.

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

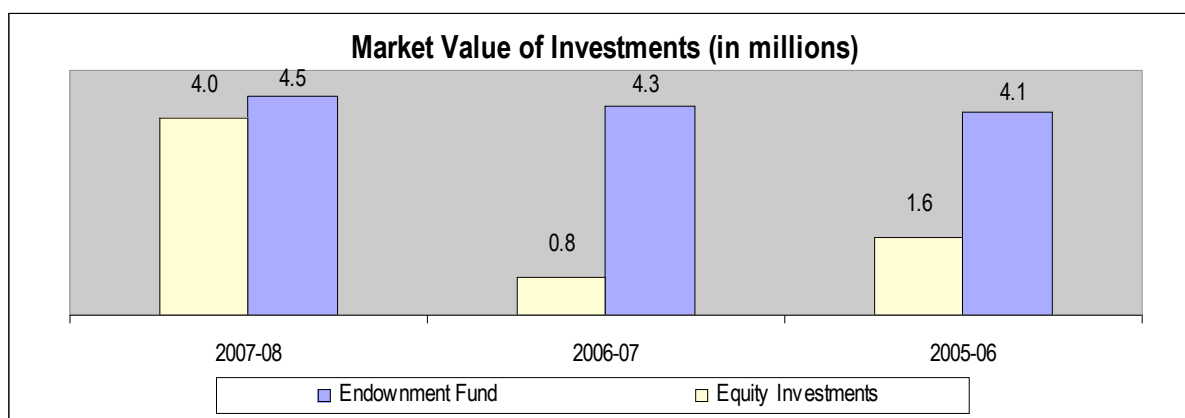
The full value recorded on the statement of financial position reflects NRC's investment in publicly-traded companies as its shares in privately held corporations are deemed to have no market value. Details of NRC's investment in public companies are as follows:

Company Name	Number of Shares	Amount Recorded in Financial Statements	Market Value at March 31, 2008
PharmaGap Inc.	1,305,425	\$ 392,933	\$ 117,488
Chemaphor Inc.	1,260,305	\$ 252,061	\$ 277,267
Pure Energy Visions Corp.	210,000	\$ 1	\$ 79,800
Omnitech Consultant Group Inc.	866,494	\$ 1	\$ 0
Imris Inc.	795,578	\$ 1	\$ 3,540,322
<b>Total</b>	<b>4,437,802</b>	<b>\$ 644,997</b>	<b>\$ 4,014,877</b>

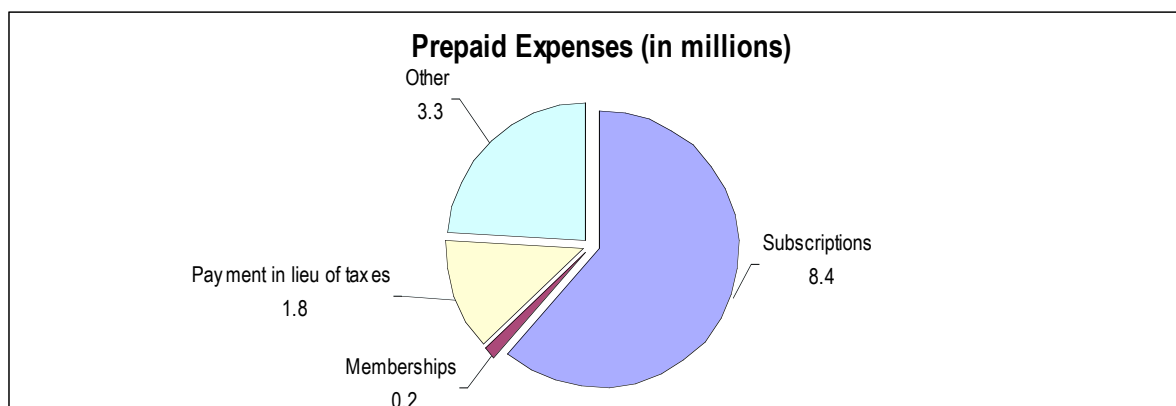
NRC's equity investments, presented on the Statement of Financial Position at \$645 thousand, reached a fair market value of \$4 million as at March 31, 2008, which represents an increase of \$3.3 million from the previous fiscal year. The increase is mainly due to the initial public offering of IMRIS Inc. in 2007-08, in which NRC had previously received common shares in settlement of debt owing.

**Holmes Fund Investments:** The Holmes Endowment Fund is an investment bequeathed to NRC in July 1994. Up to two-thirds of the endowment fund's yearly net income is used to finance the H.L. Holmes award on an annual basis. The award covers a one or two-year period and provides the opportunity to Canadian post-doctoral students to study at world famous graduate schools or research institutes under outstanding researchers. In 2007-08, NRC granted \$93 thousand to the recipient of the 2007 NRC H.L. Holmes Award who will receive a total of \$198 thousand, ending in July 2009. The recipient is using the award to fund two years of collaborative research at the Harvard Medical School.

In addition, the endowment fund reached a fair market value of \$4.5 million as at March 31, 2008 (\$4.3 million as at March 31, 2007). The investments within the portfolio had an average effective return of 4.7%. The endowment fund is presented at an amortized cost of \$4.3 million (\$4.2 million as at March 31, 2007) on the Statement of Financial Position and not at fair value.



**Prepaid Expenses:** NRC's prepaid expense as at March 31, 2008 was \$13.6 million. NRC prepays for goods and services only when contractually obligated. Subscriptions form the primary component of NRC's prepaid expenses. NRC Canada Institute for Scientific and Technical Information (NRC-CISTI), Canada's science library, subscribes to many of the world's major scientific and technical journals and databases.



**Capital Assets:** NRC's capital asset net book value has decreased from \$601 million in 2006-07 to \$596 million in 2007-08. This \$5 million decrease largely transpired given that NRC's amortization for the year (\$66.6 million) exceeded its acquisitions (\$60.9 million). The cost of capital assets has increased by 3% to \$1,348 million in 2007-08. The \$40.6 million increase is attributable to \$60.9 million in acquisitions, offset by \$20.3 million in various transfers, disposals and write-offs.

### *Acquisitions*

NRC spent \$60.9 million on capital expenditures during 2007-08, a slight decrease from the \$62.1 million spent in 2006-07 (excluding new capital leases recognized of \$58.1 million). Of the \$60.9 million in capital asset additions, \$21 million relates to assets which are currently under construction. The remaining balance is primarily made up of acquisitions related to machinery and equipment (\$25.3 million), as well as buildings and facilities (\$7.8 million).

The following represents significant capital assets expenditures in 2007-08:

- Energy Retrofit project in progress for NRC Institute for Chemical Process and Environmental Technology (NRC-ICPET). NRC has spent \$2.6 million on this project in 2007-08. Once complete, the energy retrofit project will improve the operating efficiency and effectiveness of the building, therefore transferring the current investment into future cost savings for NRC. NRC-ICPET also installed an emergency generator at a cost of \$426 thousand.
- NRC Institute for Research Construction (NRC-IRC) is in the process of constructing a new facility which will be used primarily to support activities within the Indoor Air Research and Development Initiative, which is part of the Clean Air Agenda. Costs incurred to March 31, 2008 for the construction of this facility amounts to \$994 thousand.
- NRC Institute for Aerospace Research (NRC-IAR) is currently in the process of constructing and or renovating a number of its facilities. As at March 31, 2008, approximately \$3.3 million



has been spent. In addition, NRC-IAR is constructing a Fiber Placement Composite machine in order to develop and manufacture medium to full-scale size composite parts for aerospace applications. Costs to date for the construction of the equipment amount to \$5.9 million.

- NRC Institute for Ocean Technology (NRC-IOT) has replaced the beach structure component of its wave tank in 2007-08 at a total cost of \$750 thousand. The replacement of the major component was required to ensure that future research tests produce accurate results to ensure that NRC-IOT continues to provide world-class research.
- NRC Plant Biotechnology Institute (NRC-PBI) has purchased a new genetic analyzer in 2007-08 at a total cost of \$604 thousand. The instrument provides high throughput and high quality DNA sequence information which is essential for NRC research. This instrument is unique within NRC as well as within the federal government research system.
- NRC's oldest property located on Sussex Drive in the National Capital Region received a new skylight and ventilation system in 2007-08 at a total cost of \$820 thousand. The renovations were required in order to maintain the accurate balance of atmospheric pressure within the building.

## **Liabilities**

***Accounts Payable and Accrued Liabilities:*** NRC's accounts payable and accrued liabilities decreased by \$3.1 million in 2007-08, mainly explained by the following:

NRC's accrued salary which represents salary earned by personnel up to March 31, 2008 for which they have not received compensation, decreased by \$2.3 million in comparison with the previous year. The accrual decreased this year given that a retroactive salary adjustment was recorded in the previous year following the ratification of the Administrative Services (AS), Administrative Support Group (AD) and Computer Systems Administrative (CS) collective agreements. In addition, NRC did not require an accrual at year end as was done in the previous year for its portion of payments in lieu of taxes from the City of Ottawa, given that all of its liabilities were paid as at March 31, 2008, reducing accounts payable and accrued liabilities by \$2.2 million. The decreases are offset by a \$1.1 million increase in contractor holdback liabilities at year-end, given that NRC had several large construction projects in progress.

***Vacation Pay and Compensatory Leave:*** Due to the nature of NRC's operations, a number of NRC's collective agreements do not impose maximum limits of accumulated vacation to be carried forward to subsequent fiscal years by employees. Consequently, vacation pay and compensatory leave have steadily increased over the years.

## ***Deferred Revenue:***

### ***Contributions Related to Leased Capital Assets***

Deferred revenue is recognized for contributions related to leased capital assets. For NRC purposes, this is associated with leases of facilities for \$1 per year with the University of Alberta, the University of Prince Edward Island, and the University of Western Ontario. As at March 31, 2008 this balance was \$59.8 million. This balance has decreased by \$2.7 million in the current year, and the decline is expected to continue given that associated revenue is recognized in

accordance with the useful life of the related asset. Consequently, this account increases only when new capital leases are established. On such occasions, NRC will establish a non-financial capital asset as well as corresponding deferred revenue equal to the value of the capital lease. Over time and as the asset is used, NRC recognizes equal amounts of amortization and revenue (lease inducement revenue). As a result, no impact occurs on NRC's net cost of operations or its Equity of Canada.

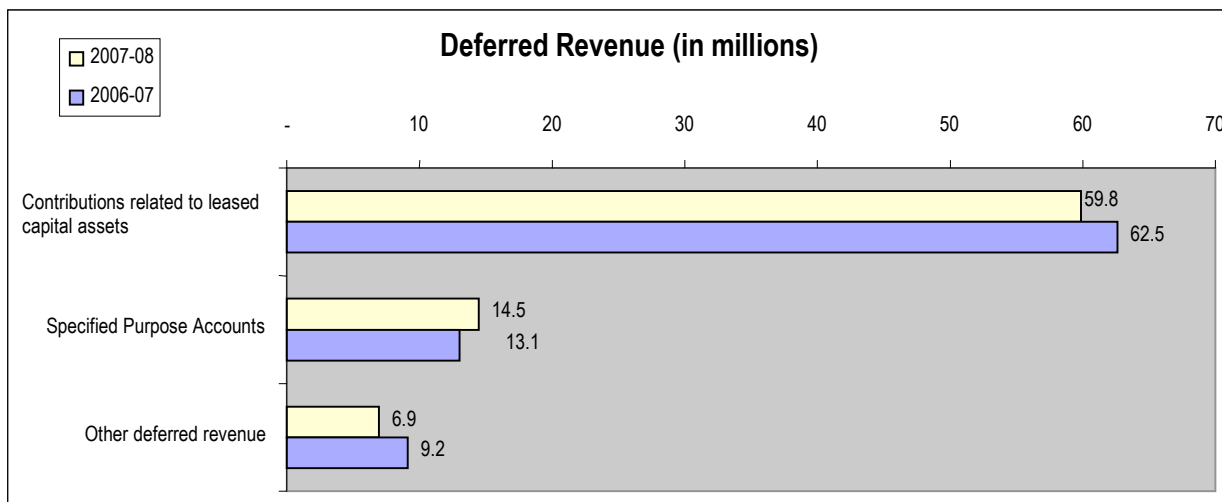
#### *Specified Purpose Accounts*

NRC undertakes collaborative work with clients for the mutual benefit of both parties. Funding provided by the collaborator is placed in a Specified Purpose Account (SPA) and used over the duration of the project. Amounts remaining in the SPA at year-end are recorded as deferred revenue as it is expected that it will be used in the upcoming year on the project. At the end of 2007-08, this amount totalled \$14.5 million, representing an increase of 10% over the previous year.

#### *Other*

Other deferred revenue consists primarily of research press deferred revenue, as well as conference and seminar registration deferred revenue. NRC had other deferred revenues of \$6.9 million as at March 31, 2008 as compared to \$9.2 million at March 31, 2007. The decrease of \$2.3 million (25%) is mainly attributable to the decrease in the number of Research Press subscriptions outstanding as at March 31, 2008 as well as the decline in the value of the US dollar given that all Research Press subscriptions are sold in US currency.

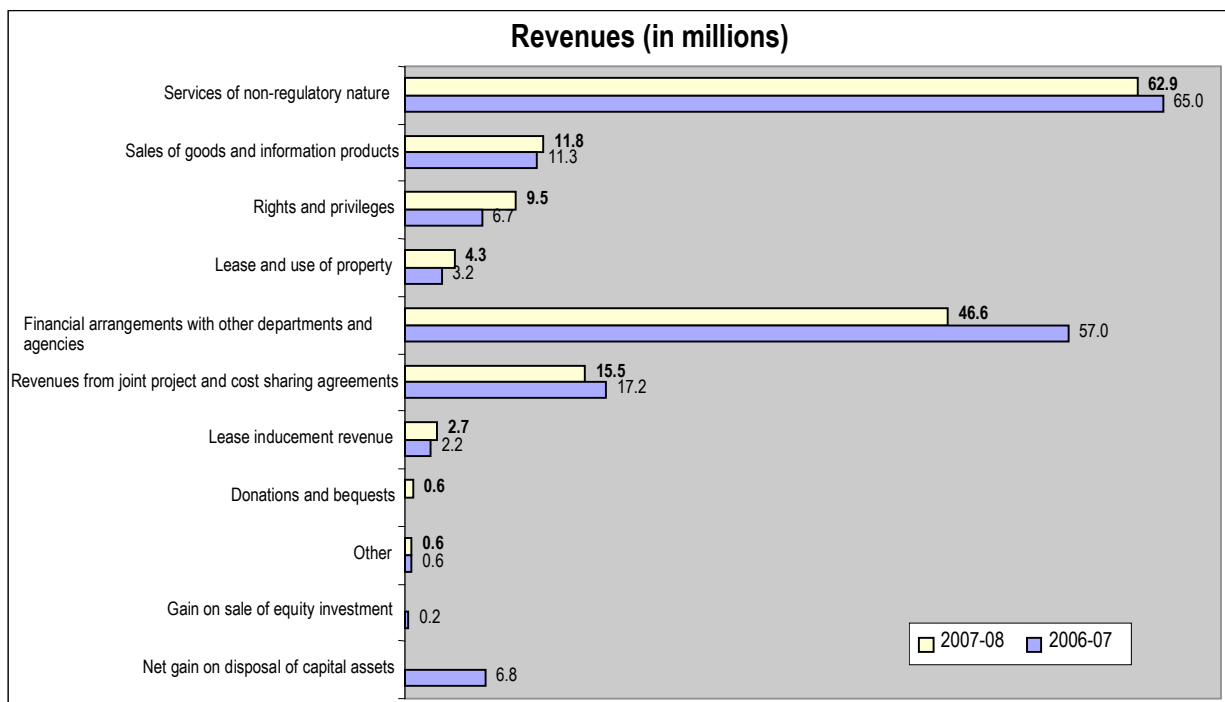
- Research Press: NRC Canada Institute for Scientific and Technical Information (NRC-CISTI) publishes research journals that are available for purchase on a subscription basis. When NRC receives payment for the subscription, it records the amount as deferred revenue and then recognizes the revenue each month as the journal is issued.
- Conference and Seminar Registration: NRC conducts many conferences and seminars which often require registration many months in advance of the conference date. Receipts from registration are recorded as deferred and recognized when the conference takes place.



**Environmental liability:** NRC's environmental liability has decreased from \$300 thousand to \$100 thousand in 2007-08. The estimated liability to remediate the land was reduced following a comprehensive environmental study completed on NRC's Penticton solid waste landfill site. Furthermore, to ensure the protection of the environment and the public, NRC has finalized in 2007-08 its plan to assess all research sites occupied by NRC. The first phase, which is scheduled to be completed in 2008-09, consists of site risk assessments. This first phase is critical to ensure that NRC directs further attention and resources on priority research sites.

## Revenues

NRC's revenues for 2007-08 were \$155 million as compared to \$170 million in 2006-07. Recent trends in revenue components are shown in the following graph. The decrease results from isolated transactions, which when removed, demonstrate that NRC's ongoing operational revenue actually increased by \$1 million in the current fiscal year.



**Services of a Non-Regulatory Nature:** In 2007-08, 40% (\$62.9 million) of NRC revenues were generated from services of a non-regulatory nature, which primarily consists of research services provided directly to industry and academic clients. In 2007-08, NRC Institute for Aerospace Research (NRC-IAR) and NRC Canada Institute for Scientific and Technical Information (NRC-CISTI) accounted for over 43% of NRC's service revenues, compared to 46% in 2006-07.

**Sales of Goods and Information Products:** As part of its goal to disseminate scientific and technical information of importance to industry, NRC has publications and certified reference materials that it sells to clients. Total sales of goods and information products totalled \$11.8 million in 2007-08, as compared to \$11.3 million in 2006-07. The largest component of revenue derived from sales of goods and information products is due to research press journals sold through Canada's scientific library. Research press income earned in 2007-08 was \$6.5 million, compared to \$5.8 million in 2006-07. This increase would have been more significant, however the steady decline of the US dollar in 2007-08 has reduced the impact, given that all research press journals are sold in US currency.

**Rights and Privileges:** Royalty revenue is earned from companies that license the rights to use NRC technology. Royalties are typically based on a percentage of the licensee's sales. In 2007-08, NRC generated \$9.5 million in royalties, up from \$6.7 million in 2006-07 and \$5.8 million in 2005-06. The rise in revenue is primarily associated with NRC's Institute for Biological Sciences (IBS) which earned revenue of \$5.3 million in 2007-08, up from \$3.5 million in 2006-07 and \$3.8 million in 2005-06, from which its largest royalties are earned through its license for the Meningitis C vaccine.

**Lease and Use of Property:** Facilitating access to NRC researchers and facilities is an important part of technology transfer at NRC. To this end, NRC provides laboratory space to companies on a

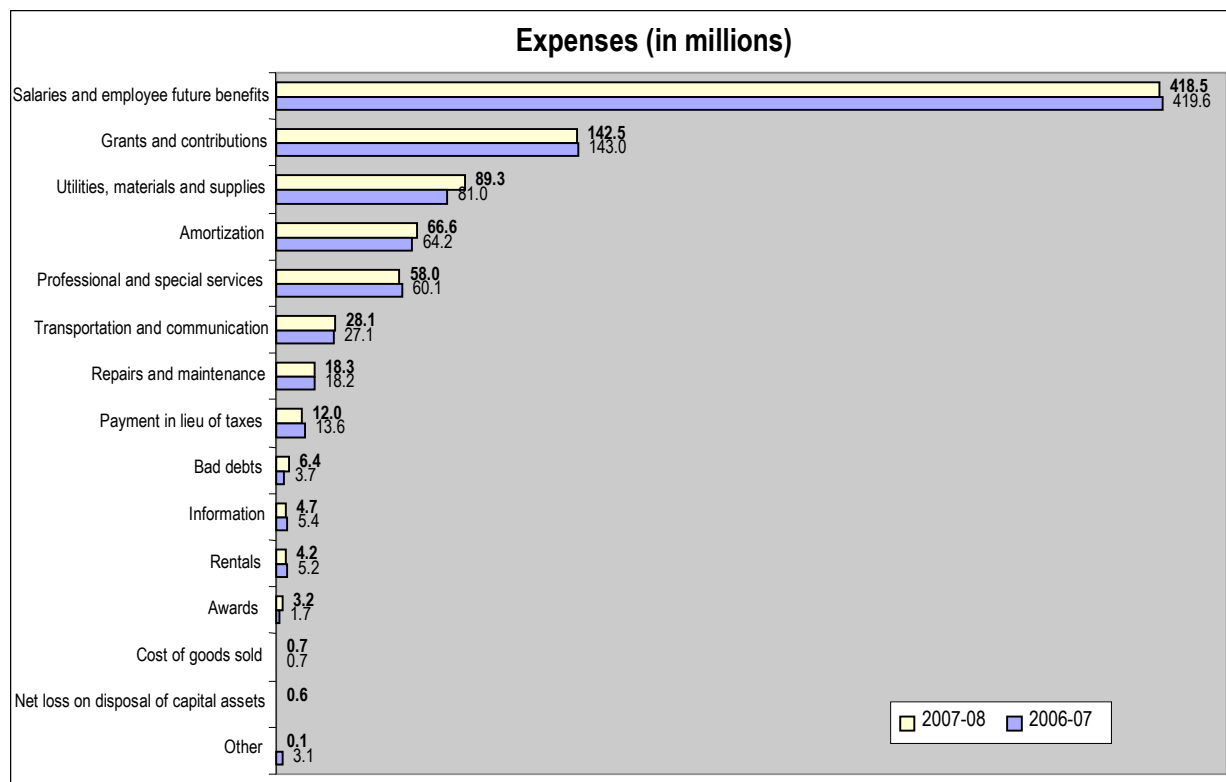
commercial basis, often as part of a collaboration or technology transfer agreement. Revenue from lease and use of property amounted to \$4.3 million in 2007-08, as compared to \$3.2 million in 2006-07. The 34% increase in the current year is primarily associated with additional agreements at NRC Biotechnology Research Institute and NRC Industrial Materials Institute.

***Financial Arrangements with Other Departments and Agencies:*** NRC undertakes research on behalf of other federal government departments. The incremental costs associated with this work are reimbursed to NRC. In 2007-08, the amount of work undertaken for other government departments was significant, totalling \$46.6 million (\$57 million in 2006-07 and \$58.8 million in 2005-06). The decline of \$10.4 million in revenue is associated with NRC's Technology Partnerships Canada (TPC) program with Industry Canada. The TPC transfer payment program terminated on March 31, 2006, and as such only existing associated contracted projects continue to receive funding from NRC. Consequently, revenue has declined significantly in the past three years. In 2007-08, the NRC received a total of \$4.5 million, as compared to \$15 million in 2006-07 and \$18.8 million in 2005-06.

***Revenues from Joint Project and Cost Sharing Agreements:*** NRC also receives income through collaborative research projects that involve cost sharing arrangements for work that is likely to lead to new expertise or technology. In 2007-08, collaborative funding across all sectors at NRC earned a total of \$15.5 million (\$17.2 million in 2006-07 and \$21 million in 2005-06). Revenue from joint research projects are not recognized until the project is complete. As such, revenue can fluctuate slightly depending on the number of on-going projects at year end.

## **Expenses**

As noted in the Highlights section, NRC's expenses increased from \$847 million in 2006-07 to \$853 million in 2007-08. 49% of expenses represents salary and benefits costs.



### Salaries and Employee Future Benefits

Salaries decreased by approximately \$1 million from 2006-07. In 2006-07, three collective agreements were ratified at year end, therefore causing a large one time adjustment of \$4 million for retroactive pay increments in addition to a pay equity settlement of \$7.6 million. The absence of one time adjustments in 2007-08 were offset by increases for general pay increments.

### Grants and Contributions

In 2007-08, grants and contributions from NRC remained stable in comparison to the previous fiscal year. The largest category of NRC grants and contributions relates to funding allocated to small and medium-sized enterprises (SMEs) through NRC-IRAP. These increased to \$72.5 million in 2007-08, from \$65 million in 2006-07. However, NRC-IRAP distributed only \$2.9 million in contribution for the TPC program, down from \$11.6 million in 2006-07, due to the winding down of the program. A decrease in contributions expense of \$3.6 million also resulted from an increase related to the allowance for uncollectible (or write-off) TPC receivables in 2007-08, as the transfer payment to Industry Canada is reduced accordingly.

NRC's contribution to TRIUMF, Canada's national laboratory for particle and nuclear physics, increased from \$45.5 million in 2006-07 to \$51.5 million in 2007-08. The increase was provided to fund operation and maintenance expenses in order to satisfy facility conformity costs. TRIUMF is an unincorporated association that operates a research laboratory.

Contributions made through the NRC Herzberg Institute of Astronomy (NRC-HIA) to support international telescopes totalled \$9.2 million in 2007-08, compared to \$12.6 million in 2006-07. The decrease is due to instrument construction delays as well as the purchasing power increase of the Canadian dollar.

#### Utilities, Materials and Supplies

In 2007-08, expenses related to utilities, materials and supplies reached \$89.3 million, as compared to \$81 million in 2006-07. The \$8.3 million increase primarily results from NRC's accounting treatment of prepaid expenses. In 2006-07, NRC-CISTI set up a large prepaid for its serial renewal subscriptions, consequently reducing the expense incurred in 2006-07. As a result, the expense incurred in 2007-08 increased by approximately \$5.4 million. The remaining balance can be attributed to NRC Herzberg Institute for Astronomy, which incurred additional expenses of \$2.9 million in 2007-08 due to project requirements.

#### Bad Debts

NRC's bad debt expense increased from \$3.7 million in 2006-07 to \$6.4 million in 2007-08. The increase is related to write-offs recorded in the year for bad debts within NRC-IRAP's TPC program, as discussed within the Grants and Contributions section.

#### Awards

In 2007-08, award costs increased from \$1.7 million in 2006-07 to \$3.2 million in 2007-08. The additional award costs are related to NRC's rights and privileges revenue, which was \$9.5 million in 2007-08. The awards expense has a direct relationship with revenue given that patent awards are distributed to personnel as income is earned from the respective license agreements. NRC distributes a maximum of 35% of revenue earned to personnel responsible for the creation of the commercial patent. Consequently, a rise in royalty revenue results in a corresponding increase in award costs.

#### Other Expenses

Other Expenses amounted to \$58 thousand in 2007-08, as compared to \$3.1 million in 2006-07. The main reason for the decrease in other expenses is due to the pay equity settlement recognized in 2006-07 of \$2.9 million related to damages pursuant to the *Canadian Human Rights Act* to all Eligible Employees of the Research Council Employees' Association.

# Financial Statements





Auditor General of Canada  
Vérificatrice générale du Canada

## AUDITOR'S REPORT

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

I have audited the statement of financial position of the National Research Council of Canada (the Council) as at March 31, 2008 and the statements of operations, equity of Canada and cash flow for the year then ended. These financial statements are the responsibility of the Council's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Council as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

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

John Wiersema, FCA  
Deputy Auditor General  
for the Auditor General of Canada

Ottawa, Canada  
June 13, 2008

## National Research Council of Canada

### Statement of Management Responsibility

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2008 and all information contained in these statements rests with the National Research Council of Canada's (NRC) management. These financial statements have been prepared by management in accordance with Treasury Board accounting policies and year-end instructions issued by the Office of the Comptroller General which are consistent with Canadian generally accepted accounting principles for the public sector.

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

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

The role of the Audit, Evaluation, and Risk Management Committee of NRC, that was established in June 2005, is to ensure that the proper review procedures are in place, to obtain the results of the audits and evaluations, especially in sensitive areas and in areas of concern and to be informed of the corrective actions taken or planned to be taken by management.

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



Pierre Coulombe, Ph.D., P.Eng.  
President



Daniel Gosselin, FCA  
Chief Financial Officer

Ottawa, Canada  
June 13, 2008

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

<i>(in thousands of dollars)</i>	<b>2008</b>	<b>2007</b>
<b>ASSETS</b>		
<b>Financial Assets</b>		
Due from the Consolidated Revenue Fund	204,764	207,971
Accounts receivable and advances (Note 4)	27,364	26,880
Inventory for resale	2,328	2,873
Equity investments (Note 5)	645	646
Endowment fund investments (Note 6)	4,310	4,192
	<u>239,411</u>	<u>242,562</u>
<b>Non-Financial Assets</b>		
Prepaid expenses	13,634	12,750
Inventory for consumption	2,445	2,111
Capital assets (Note 7)	595,722	601,363
	<u>611,801</u>	<u>616,224</u>
<b>TOTAL ASSETS</b>	<b><u>851,212</u></b>	<b><u>858,786</u></b>
<b>LIABILITIES AND EQUITY OF CANADA</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities (Note 8)	127,777	130,853
Vacation pay and compensatory leave	40,150	39,791
Deferred revenue (Note 9)	81,246	84,834
Employee future benefits (Note 10)	61,124	58,788
Environmental liabilities (Note 11)	100	300
	<u>310,397</u>	<u>314,566</u>
<b>Equity of Canada</b>	<b>540,815</b>	<b>544,220</b>
<b>TOTAL LIABILITIES AND EQUITY OF CANADA</b>	<b><u>851,212</u></b>	<b><u>858,786</u></b>

Contingent liabilities (Note 11) and contractual obligations (Note 12)

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

Approved by:



Pierre Coulombe, Ph.D., P.Eng.  
President



Daniel Gosselin, FCA  
Chief Financial Officer

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

<i>(in thousands of dollars)</i>	<b>2008</b>	<b>2007</b>
<b>Expenses (Note 13)</b>		
Research and development	601,723	600,627
Technology and Industry support	<u>251,265</u>	<u>246,028</u>
	<u>852,988</u>	<u>846,655</u>
<b>Revenues (Note 14)</b>		
Research and development	101,740	109,621
Technology and Industry support	<u>52,790</u>	<u>60,536</u>
	<u>154,530</u>	<u>170,157</u>
<b>Net Cost of Operations</b>	<u><b>698,458</b></u>	<u><b>676,498</b></u>

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

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

<i>(in thousands of dollars)</i>	<b>2008</b>	<b>2007</b>
<b>Equity of Canada, beginning of year</b>	544,220	507,227
Net cost of operations	(698,458)	(676,498)
Net cash provided by Government (Note 3)	673,127	655,005
Change in due from the Consolidated Revenue Fund	(3,207)	30,874
Services received without charge (Note 15)	<u>25,133</u>	<u>27,612</u>
<b>Equity of Canada, end of year</b>	<u>540,815</u>	<u>544,220</u>

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

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

<i>(in thousands of dollars)</i>	<b>2008</b>	<b>2007</b>
<b>Operating Activities</b>		
Net cost of operations	698,458	676,498
Non-cash items		
Amortization of capital assets	(66,555)	(64,210)
Gain on sale of equity investments	-	223
Net (loss) gain on disposal of capital assets	(597)	6,823
Services received without charge (Note 15)	(25,133)	(27,612)
Other	1,166	2,451
Variations in Statement of Financial Position		
Increase in accounts receivable and advances	484	5,791
Decrease in inventory for resale	(545)	(716)
Increase in endowment fund investments	118	115
Increase in prepaid expenses	884	7,280
Increase (decrease) in inventory for consumption	334	(105)
Decrease (increase) in liabilities	4,169	(55,746)
Cash used by operating activities	<u>612,783</u>	<u>550,792</u>
<b>Capital Investment Activities</b>		
Acquisitions of capital assets	60,939	120,172
Proceeds from disposal of capital assets	(594)	(15,327)
Cash used by capital investment activities	<u>60,345</u>	<u>104,845</u>
<b>Investing Activities</b>		
Proceeds from sale of equity investments	(1)	(632)
Cash used by investing activities	<u>(1)</u>	<u>(632)</u>
<b>Financing Activities</b>		
Net cash provided by Government of Canada (Note 3)	<u>(673,127)</u>	<u>(655,005)</u>

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

**National Research Council of Canada****Notes to Financial Statements**

Year ended March 31, 2008

**1. Authority and Objectives**

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

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

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

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

**2. Summary of Significant Accounting Policies**

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

**a) Parliamentary Appropriations**

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

**b) Net Cash Provided by Government**

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

**c) Due from the Consolidated Revenue Fund**

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

#### d) Revenues / Deferred revenue

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

#### e) Expenses

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

#### f) Employee future benefits

##### i) Pension Benefits

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

##### ii) Severance Benefits

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

#### g) Accounts receivable

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

#### h) Conditionally repayable contributions

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



i) Contingent liabilities

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

j) Environmental liabilities

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

k) Inventory

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

l) Equity investments

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

m) Endowment Fund Investments

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

Endowments are recognized as an asset when the amount to be received can be reasonably estimated and ultimate collection is reasonably assured. Income from endowments is recorded as deferred revenue and recognized as revenue in the year in which the related expenses are incurred.

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

n) Foreign Currency Transactions

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

## o) Capital Assets and Amortization

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

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

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

## p) Measurement Uncertainty

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

## q) Asset Retirement Obligations

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

### 3. Parliamentary Appropriations

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

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

<i>(in thousands of dollars)</i>	<b>2008</b>	<b>2007</b>
<b>Net Cost of Operations</b>	<b>698,458</b>	<b>676,498</b>
Adjustments for items affecting net cost of operations but not affecting appropriations:		
Revenues	154,530	170,157
Amortization of capital assets	(66,555)	(64,210)
Financial arrangements with other Federal Government departments and agencies	(46,617)	(56,974)
Services received without charge (Note 15)	(25,133)	(27,612)
Specified purpose accounts expenses	(14,009)	(15,131)
Decrease (increase) in salary accrual	5,527	(5,527)
Refunds of previous year's expenditures	3,488	3,540
Decrease in payment-in-lieu of taxes accrual	2,623	371
Increase in employee future benefits	(2,336)	(3,519)
Cost of goods sold	(650)	(745)
Loss on disposal of capital assets	(597)	-
Write-off of inventory	(551)	(870)
Increase in vacation pay and compensatory leave	(359)	(2,805)
Decrease (increase) in litigation claim expense accrual	261	(1,012)
Decrease in environmental liabilities	200	-
Bad debts recovery (expense)	95	(784)
Expenses related to Justice Canada	-	(541)
Other	1,078	2,303
Total items affecting net cost of operations but not affecting appropriations	<u>10,995</u>	<u>(3,359)</u>
Adjustments for items not affecting net cost of operations but affecting appropriations:		
Acquisitions of capital assets and additions to assets under construction	59,824	60,871
Inventory purchases	990	794
Increase in prepaid expenses	884	7,280
Total items not affecting net cost of operations but affecting appropriations	<u>61,698</u>	<u>68,945</u>
<b>Current year appropriations used</b>	<b><u>771,151</u></b>	<b><u>742,084</u></b>

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

<i>(in thousands of dollars)</i>	<b>2008</b>	<b>2007</b>
Parliamentary appropriations provided:		
Vote 55 – Operating expenditures	445,422	460,203
Vote 60 – Capital expenditures	47,185	49,943
Vote 65 – Grants and contributions	152,124	145,858
Statutory amounts:		
Revenues pursuant to paragraph 5(1)(e) of the <i>National Research Council Act</i>	162,748	133,706
Contributions to employee benefit plans	57,684	54,647
Proceeds from the disposal of surplus Crown assets	656	335
Collection agency fees	48	51
Less:		
Revenues available for use in subsequent years	(66,118)	(78,168)
Lapsed appropriations	(28,598)	(24,491)
<b>Current year appropriations used</b>	<b>771,151</b>	<b>742,084</b>

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

<i>(in thousands of dollars)</i>	<b>2008</b>	<b>2007</b>
Net cash provided by government	673,127	655,005
Adjustments for items not affecting appropriations:		
Revenues	154,530	170,157
Expenditures	(50,074)	(31,978)
Increase in accounts receivable and advances	(484)	(5,791)
Increase in endowment fund investments	(118)	(115)
Decrease in inventory	1,201	1,615
Increase in capital assets	(1,115)	(59,301)
(Decrease) increase in liabilities	(5,916)	12,492
Total items not affecting appropriations	98,024	87,079
<b>Current year appropriations used</b>	<b>771,151</b>	<b>742,084</b>

**4. Accounts Receivable and Advances**

<i>(in thousands of dollars)</i>	<b>2008</b>	<b>2007</b>
Accounts receivable from external parties	20,869	19,612
Accounts receivable from other Federal Government departments and agencies	5,898	5,846
Employee advances	51	48
	26,818	25,506
Less: allowance for doubtful accounts on external accounts receivable	(1,147)	(2,180)
	25,671	23,326
Repayable contributions	9,944	10,659
Less: allowance for uncollectibility	(8,251)	(7,105)
Net repayable contributions	1,693	3,554
<b>Total</b>	<b>27,364</b>	<b>26,880</b>

## 5. Equity Investments

Equity investments include shares in publicly and privately held companies. It is not management's intention to hold equity investments over the long-term. NRC will consider timely opportunities for divestiture of equity investments by taking into account the interests, market liquidity and expected future growth of the company. Of all portfolio investments where NRC holds an equity position, six were for debt settlements for a total value of \$684,168 (six valued at \$644,839 in 2007) and eighteen were obtained by non-monetary transactions (twenty in 2007), of which nine (eight in 2007) are inactive or have filed for bankruptcy. Estimates of the non-monetary transactions cannot be determined, as the value of the financial assistance is highly speculative.

The fair value of the equity investments as at March 31, 2008 was \$4,014,877 (\$757,292 in 2007).

## 6. Endowment Fund Investments

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

<i>(in thousands of dollars)</i>	<b>2008</b>	<b>2007</b>
Restricted cash and investments, beginning of year	4,192	4,077
Net income from endowment	209	208
Awards granted	(91)	(93)
Restricted cash and investments, end of year	4,310	4,192

The portfolio had an average effective return of 4.71% (5.02% in 2007) and an average term to maturity of 5.24 years as at March 31, 2008 (5.07 years as at March 31, 2007). The fair value of the endowment investments as at March 31, 2008 was \$4,460,397 (\$4,261,721 in 2007).

## 7. Capital Assets

Capital asset class	Opening balance	Acquisitions	Transfers, disposals and write-offs	Closing balance	Opening balance	Amortization	Transfers, disposals and write-offs	Closing balance	2008 Net book value	2007 Net book value
Land	10,972	-	-	10,972	-	-	-	-	10,972	10,972
Buildings and facilities	614,786	7,843	770	623,399	(317,118)	(23,564)	(2)	(340,684)	282,715	297,668
Works and infrastructure	20,185	85	-	20,270	(12,153)	(726)	-	(12,879)	7,391	8,032
Machinery, equipment and furniture	472,547	25,291	(13,822)	484,016	(296,859)	(30,247)	15,546	(311,560)	172,456	175,688
Informatics equipment	68,765	4,301	(4,227)	68,839	(54,518)	(5,021)	4,531	(55,008)	13,831	14,247
Informatics software	17,322	783	(2)	18,103	(6,880)	(3,339)	24	(10,195)	7,908	10,442
Vehicles	2,786	417	(198)	3,005	(2,067)	(247)	186	(2,128)	877	719
Aircraft	10,763	483	-	11,246	(9,074)	(237)	-	(9,311)	1,935	1,689
Leasehold improvements	10,474	742	997	12,213	(1,676)	(450)	(13)	(2,139)	10,074	8,798
Assets under construction	10,562	20,994	(3,815)	27,741	-	-	-	-	27,741	10,562
Leased capital assets	68,100	-	-	68,100	(5,554)	(2,724)	-	(8,278)	59,822	62,546
<b>Total</b>	<b>1,307,262</b>	<b>60,939</b>	<b>(20,297)</b>	<b>1,347,904</b>	<b>(705,899)</b>	<b>(66,555)</b>	<b>20,272</b>	<b>(752,182)</b>	<b>595,722</b>	<b>601,363</b>

Amortization expense for the year ended March 31, 2008 is \$66,554,738 (\$64,209,615 in 2007).

At March 31, 2008, NRC held eight land lease agreements (eight in 2007) for a nominal annual cost of one dollar with universities. In these instances, NRC owns the building on the leased land. The fair value of the land for these non-monetary transactions cannot be determined.

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

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

On September 1, 2006, NRC took possession of a new facility and entered into a non-monetary transaction with the University of Prince Edward Island. NRC entered into a lease agreement with the University for the housing of NRC's Institute for Nutrisciences and Health (INH), whereby leased property was provided to NRC at a nominal cost of one dollar per year. The lease provides a nineteen month term with renewal options for seven additional periods of five years, and one additional period of three years and five months (to August 31, 2046). The building was recorded as a leased capital asset at its fair value of \$13,700,000. The annual amortization of \$548,000 for the capital asset is exactly offset by the amortization of the deferred contribution related to the leased building.

## 8. Accounts Payable and Accrued Liabilities

<i>(in thousands of dollars)</i>	2008	2007
Suppliers	99,504	102,188
Payable to other Federal Government departments and agencies	14,935	14,017
Accrued salaries, wages and employee benefits	11,423	13,773
Contractor holdbacks	1,849	745
Sales tax payable	66	130
<b>Total</b>	<b>127,777</b>	<b>130,853</b>

## 9. Deferred Revenue

<i>(in thousands of dollars)</i>	2008	2007
<b>Deferred revenue – contributions related to leased capital assets</b>		
Balance, beginning of year	62,546	6,600
Contributions received	-	58,100
Contributions recognized as revenue	(2,724)	(2,154)
Balance, end of year	59,822	62,546
<b>Deferred revenue - specified purpose accounts</b>		
Balance, beginning of year	13,093	12,596
Funds received	16,877	17,679
Revenue recognized	(15,466)	(17,182)
Balance, end of year	14,504	13,093
<b>Deferred revenue - other</b>		
Balance, beginning of year	9,195	23,598
Funds received	6,724	9,129
Revenue recognized	(8,999)	(23,532)
Balance, end of year	6,920	9,195
<b>Total</b>	<b>81,246</b>	<b>84,834</b>

## 10. Employee Future Benefits

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

### a) Pension benefits

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

The expense amounts to \$42,051,439 (\$40,275,048 in 2007) which represents approximately 2.2 times (2.3 times in 2007) the contributions by employees. Both the employees and NRC contribute to the cost of the Plan. As at March 31, 2008, the contributions are as follows:

<i>(in thousands of dollars)</i>	<b>2008</b>	<b>2007</b>
NRC's contributions	42,051	40,275
Employees' contributions	19,250	17,825

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

### b) Employee severance benefits

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

<i>(in thousands of dollars)</i>	<b>2008</b>	<b>2007</b>
Accrued benefit obligation, beginning of year	58,788	55,269
Expense for the year	7,603	7,180
Benefits paid during the year	(5,267)	(3,661)
Accrued benefit obligation, end of year	61,124	58,788

## 11. Contingent Liabilities

### a) Environmental liabilities

Liabilities are accrued to record the estimated costs related to the management and remediation of contaminated sites where NRC is obligated or likely to be obligated to incur such costs. NRC has identified one site (one site in 2007) where such action is possible and for which a liability of \$100,000 (\$300,000 in 2007) has been recorded. NRC's ongoing efforts to assess contaminated sites may result in additional environmental liabilities related to newly identified sites, or changes in the assessments or intended use of existing sites. These liabilities will be accrued by NRC in the year in which they become known.

### b) Claims and litigation

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

As at March 31, 2008, NRC had thirteen claims (thirteen in 2007) outstanding of which two (three in 2007) related to pending charges that will likely result in a liability and two where the outcome is undeterminable (two in 2007). The two claims that will likely result in a liability can be reasonably estimated (three in 2007). A total accrued liability of \$1,289,136 (\$1,550,000 in 2007) was recorded based on NRC's legal assessment of potential liability.

### c) Asset Retirement Obligations

NRC has not recognized any asset retirement obligations in the financial statements. NRC's legal obligations related to asset retirements are subject to several uncertainties 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.

NRC generally incurs the costs associated with the removal and disposal of asbestos and other designated substances located in NRC buildings during major renovations. The timing and scope of renovations which result in the removal of regulated substances cannot be reasonably estimated at this time. Consequently, the asset retirement obligations associated with the removal of asbestos and other designated substances within NRC's premises have not been recognized in the financial statements.

## 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 when the services/goods are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

<i>(in thousands of dollars)</i>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013 and thereafter</b>	<b>Total</b>
Transfer payments	105,827	59,635	10,079	9,900	8,450	193,891
Operating contracts	35,075	9,493	14,579	-	-	59,147
<b>Total</b>	<b>140,902</b>	<b>69,128</b>	<b>24,658</b>	<b>9,900</b>	<b>8,450</b>	<b>253,038</b>



**13. Expenses**

<i>(in thousands of dollars)</i>	<b>2008</b>	<b>2007</b>
Salaries and employee future benefits	418,453	419,566
Grants and contributions	142,497	142,963
Utilities, materials and supplies	89,331	81,026
Amortization	66,555	64,210
Professional and special services	58,018	60,111
Transportation and communication	28,061	27,127
Repairs and maintenance	18,293	18,180
Payments in lieu of taxes	11,977	13,649
Bad debts	6,390	3,658
Information	4,741	5,377
Rentals	4,214	5,244
Awards	3,153	1,707
Cost of goods sold	650	745
Net loss on disposal of capital assets	597	-
Other	58	3,092
<b>Total</b>	<b>852,988</b>	<b>846,655</b>

**14. Revenues**

<i>(in thousands of dollars)</i>	<b>2008</b>	<b>2007</b>
Sales of goods and services		
Services of non-regulatory nature and other fees and charges	62,900	64,995
Sales of goods and information products	11,814	11,349
Rights and privileges	9,471	6,663
Lease and use of property	4,303	3,221
	<b>88,488</b>	<b>86,228</b>
Financial arrangements with other Federal Government departments and agencies	46,620	56,974
Revenues from joint project and cost sharing agreements	15,466	17,182
Lease inducement revenue	2,724	2,154
Donations and bequests	621	-
Other	611	573
Gain on sale of equity investment	-	223
Net gain on disposal of capital assets	-	6,823
<b>Total</b>	<b>154,530</b>	<b>170,157</b>

### 15. Related Party Transactions

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

<i>(in thousands of dollars)</i>	<b>2008</b>	<b>2007</b>
Employer's contributions to the health and dental insurance plans provided by Treasury Board	23,706	25,786
Audit services provided by the Office of the Auditor General of Canada	441	500
Legal services provided by Justice Canada	360	635
Workers' compensation benefits provided by Human Resources and Social Development Canada	310	360
Payroll services provided by Public Works and Government Services Canada	167	174
Accommodation provided by Public Works and Government Services Canada	149	157
<b>Total</b>	<b>25,133</b>	<b>27,612</b>

The total of legal services provided by Justice Canada amounts to \$1,154,030 (\$1,176,429 in 2007). Of this amount, \$360,143 (\$635,462 in 2007) was provided without charge. The total of accommodation provided by Public Works and Government Services Canada amounts to \$321,080 (\$322,318 in 2007). Of this amount, \$149,298 (\$156,876 in 2007) was provided without charge. The total of Workers' compensation benefits provided by Human Resources and Social Development Canada amounts to \$834,813 (\$690,606 in 2007). Of this amount, \$309,838 (\$360,188 in 2007) was provided without charge.

### 16. Financial Instruments

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

### 17. Comparative Information

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

# **Organizational Information**

## Council Members

### **Pierre Coulombe**

President (and Chair of Council)  
National Research Council Canada  
Ottawa, Ontario

### **Dennis Anderson**

Management Consultant  
Libau, Manitoba

### **Patricia Béretta**

Biomedical Engineer  
Elmira, Ontario

### **Louis Brunel**

President  
International Institute of  
Telecommunications  
Montreal, Quebec

### **Paul Clark**

Former Vice-President  
Research and Technology  
NOVA Chemicals Corporation  
Calgary, Alberta

### **Delwyn Fredlund**

Senior Geotechnical Engineering  
Specialist  
Golder Associates Ltd  
Saskatoon, Saskatchewan

### **Peter Frise**

Scientific Director and CEO,  
Auto 21  
Windsor, Ontario

### **John Harker**

President  
Cape Breton University  
Sydney, Nova Scotia

### **Margaret Lefebvre**

Executive Director  
Canadian Association of Income Funds  
Montreal, Quebec

### **Kellie Leitch**

Assistant Dean (External), Chief/Chair  
of Paediatric Surgery and Assistant  
Professor, Paediatric Orthopaedics  
University of Western Ontario  
London, Ontario

### **Douglas MacArthur**

President  
MacArthur Group, Inc.  
Charlottetown, Prince Edward Island

### **Eva Mah Borsato**

President  
Intellectual Capital Corporation Inc.  
Edmonton, Alberta

### **Gilles Patry**

Rector and Vice-Chancellor  
University of Ottawa  
Ottawa, Ontario

### **Alan Pelman**

Former Vice-President, Technology  
Canada  
Weyerhaeuser Ltd.  
Vancouver, British Columbia

### **Barbara Stanley**

President  
BESCO Holdings 2002 Inc.  
Rothesay, New Brunswick

### **Howard Tennant**

President Emeritus  
University of Lethbridge  
Lethbridge, Alberta

### **Normand Tremblay**

Partner, SECOR  
Montréal, Québec

**Allan Warrack**

Business Professor (Emeritus)  
University of Alberta  
Calgary, Alberta

**David Wood**

Head of Finance and Corporate  
Development, Secretary and Treasurer  
Celator Pharmaceuticals Inc.  
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**Vice-President Engineering**

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**Vice-President Research Life Sciences**

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**Vice-President Research Physical Sciences**

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**Vice-President Technology and Industry Support**

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## Branches and Offices Reporting to the President

**Executive Offices and Secretary General**

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**Finance Branch**

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**Human Resources Branch**

Director General (Acting): Isabelle Gingras  
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**NRC Internal Audit**

Director: Jayne Hinchliff-Milne  
General Inquiries: 613-949-7689

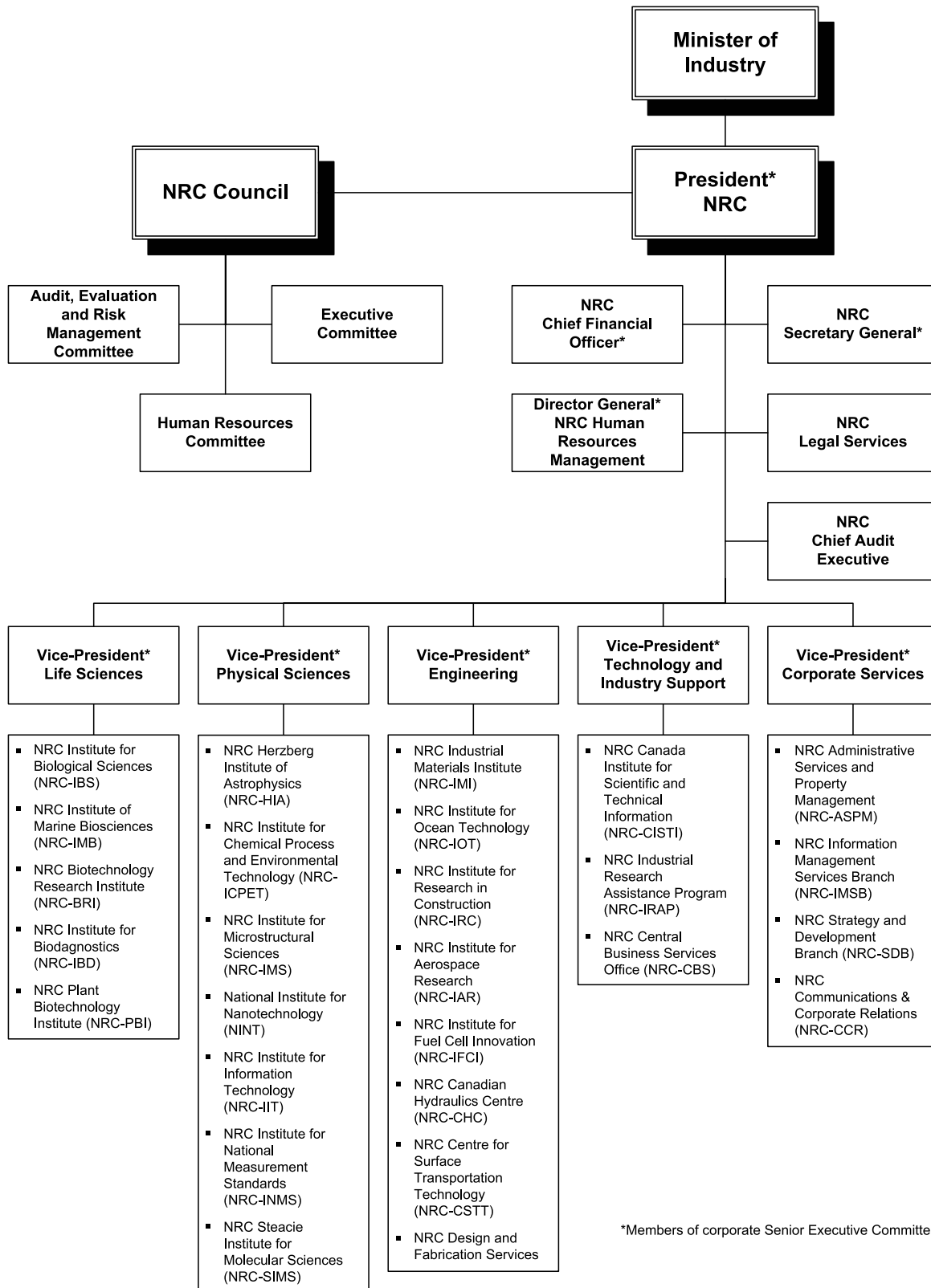
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**NRC Legal Services**

Director: Louis Robayo  
General Inquiries: 613-993-0035

louis.robayo@nrc-cnrc.gc.ca

## Organizational Chart



## NRC Research Institutes, Programs and Technology Centres

### Under the Direction of the Vice-President Research Life Sciences

#### *Biotechnology Research Institute (NRC-BRI) – Montreal, QC*

Director General: Michel Desrochers

General Inquiries: 514-496-6100 <http://www.bri-irb.nrc-cnrc.gc.ca>

#### *Institute for Biodiagnostics (NRC-IBD) – Winnipeg, MB*

Director General: Ian Smith

General Inquiries: 204-983-7692 <http://www.ibd.nrc-cnrc.gc.ca>

#### *Institute for Biological Sciences (NRC-IBS) – Ottawa, ON*

Director General: Jim Richards

General Inquiries: 613-993-5812 <http://ibs-isb.nrc-cnrc.gc.ca>

#### *Institute for Marine Biosciences (NRC-IMB) – Halifax, NS*

Director General: Joan Kean-Howie

General Inquiries: 902-426-8332 <http://imb-ibm.nrc-cnrc.gc.ca>

#### *Plant Biotechnology Institute (NRC-PBI) – Saskatoon, SK*

Director General: Jerome Konecsni

General Inquiries: 306-975-5575 <http://pbi-ibp.nrc-cnrc.gc.ca>

### Under the Direction of the Vice-President Research Physical Sciences

#### *Herzberg Institute of Astrophysics (NRC-HIA) – Victoria and Penticton, BC*

Director General: Gregory Fahlman

General Inquiries: 250-363-0001 <http://hia-ihp.nrc-cnrc.gc.ca>

#### *Institute for Chemical Process and Environmental Technology (NRC-ICPET) – Ottawa, ON*

Director General: Janusz Lusztyk

General Inquiries: 613-993-4041 <http://icpet-itpce.nrc-cnrc.gc.ca>

#### *Institute for Information Technology (NRC-IIT) – Ottawa, ON, Gatineau, QC, Fredericton, Moncton and Saint John, NB*

Director General: Christian Couturier

General Inquiries: 506-444-6132 <http://iit-iti.nrc-cnrc.gc.ca>

#### *Institute for Microstructural Sciences (NRC-IMS) – Ottawa, ON*

Director General: Marie D'Iorio

General Inquiries: 613-993-4583 <http://ims-ism.nrc-cnrc.gc.ca>

#### *Institute for National Measurement Standards (NRC-INMS) – Ottawa, ON*

Director General: Jim McLaren

General Inquiries: 613-998-7018 <http://inms-ienm.nrc-cnrc.gc.ca>



***National Institute for Nanotechnology (NINT) – Edmonton, AB***

Director General: Nils Petersen

General Inquiries: 780-492-8888

<http://nint-innt.nrc-cnrc.gc.ca>***Steacie Institute for Molecular Sciences (NRC-SIMS) – Ottawa and Chalk River, ON***

Director General: Danial Wayner

General Inquiries: 613-991-5419

<http://steacie.nrc-cnrc.gc.ca>**Under the Direction of the Vice-President Engineering*****Institute for Aerospace Research (NRC-IAR) – Ottawa, ON and Montreal, QC***

Director General: Jerzy Komorowski

General Inquiries: 613-993-5738

<http://iar-ira.nrc-cnrc.gc.ca>***Institute for Fuel Cell Innovation (NRC-IFCI) – Vancouver, BC***

Director General: Maja Veljkovic

General Inquiries: 604-221-3099

<http://ifci-iipac.nrc-cnrc.gc.ca>***Industrial Materials Institute (NRC-IMI) – Boucherville and Saguenay, QC***

Director General: Blaise Champagne

General Inquiries: 450-641-5000

<http://www.imi.nrc-cnrc.gc.ca>***Institute for Ocean Technology (NRC-IOT) – St. John's, NL***

Director General: Mary Williams

General Inquiries: 709-772-6001

<http://iot-ito.nrc-cnrc.gc.ca>***Institute for Research in Construction (NRC-IRC) – Ottawa, ON and Regina, SK***

Director General: Bob Bowen

General Inquiries: 613-993-2607

<http://irc.nrc-cnrc.gc.ca>***Canadian Hydraulics Centre (NRC-CHC) – Ottawa, ON***

Executive Director: John Coleman

General Inquiries: 613-993-2417

<http://chc.nrc-cnrc.gc.ca>***Centre for Surface Transportation Technology (NRC-CSTT) – Ottawa, ON***

General Manager: Paul Treboutat

General Inquiries: 613-998-9365

<http://cstt-ctts.nrc-cnrc.gc.ca>**Under the Direction of the Vice-President Technology and Industry Support*****Canada Institute for Scientific and Technical Information (NRC-CISTI) – Ottawa, ON with offices across Canada***

Director General: Pam Bjornson

General Inquiries: 1-800-668-1222

<http://cisti-icist.nrc-cnrc.gc.ca>***Industrial Research Assistance Program (NRC-IRAP) – Ottawa, ON with offices across Canada***

Director General: Tony Rahilly

General Inquiries: 1-877-994-4727

<http://irap-pari.nrc>