
FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

For the Year Ended March 31, 2014

INTRODUCTION

The following Financial Statement Discussion and Analysis (FSD&A) should be read in conjunction with the audited consolidated financial statements and accompanying notes for the National Research Council of Canada (NRC) for the fiscal year ended March 31, 2014.

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, results of operations, changes in its net (financial assets) debt and its cash flows, while demonstrating NRC's accountability for its resources. Additional information on NRC's performance is available in the NRC Departmental Performance Report (DPR), and information on its plans and priorities is available in the NRC Report on Plans and Priorities (RPP).

All financial information presented herein is denominated in Canadian dollars, unless otherwise indicated.

Special note regarding forward-looking statements

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

Overview

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

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

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

Reporting Entity

The consolidated financial statements include a portion of the accounts of the Canada-France-Hawaii Telescope Corporation (CFHT). NRC has determined that its relationship with CFHT constitutes a government partnership for accounting purposes and its results are proportionately consolidated in the financial statements. Further details are described in Note 2b) of NRC's consolidated financial statements.

HIGHLIGHTS

Accounting Changes

During 2013-2014, NRC increased the capitalization threshold of tangible capital assets from \$5,000 to \$10,000. The capitalization threshold of tangible capital assets was modified to reflect the threshold as prescribed by the *Treasury Board Accounting Standard 3.1 – Capital Assets*. The significant changes to NRC's consolidated financial statements are described below. These changes have been applied retroactively, and comparative information for 2012-2013 has been restated.

Tangible capital assets having an original acquisition value of less than \$10,000 have been written-off and the balance of the 2012-13 tangible capital assets was reduced by \$14.4 million. As a result of the accounting change, the 2012-13 amortization expense was reduced by \$3.6 million and the operating expenses were increased by \$1.7 million for purchases of tangible capital assets having an acquisition cost of less than \$10,000.

Note 4 of the consolidated financial statements provides additional details.

Consolidated Statement of Financial Position

NRC's financial position, as shown by the Departmental net financial position line in the Consolidated Statement of Financial Position, was strengthened to \$574.5 million as at March 31, 2014, from a restated \$551.3 million in 2013. NRC's total liabilities as of March 31, 2014 were \$272.6 million, a decrease of \$48.4 million from 2013. Net financial assets totalled \$307.1 million, a decrease of \$19.8 million from 2013.

NRC had a departmental net surplus of \$34.5 million, an improvement of \$28.6 million from the previous year. Departmental net financial assets represent NRC's total liabilities, less its total net financial assets. It is a measure of future income required to pay for past transactions and events.

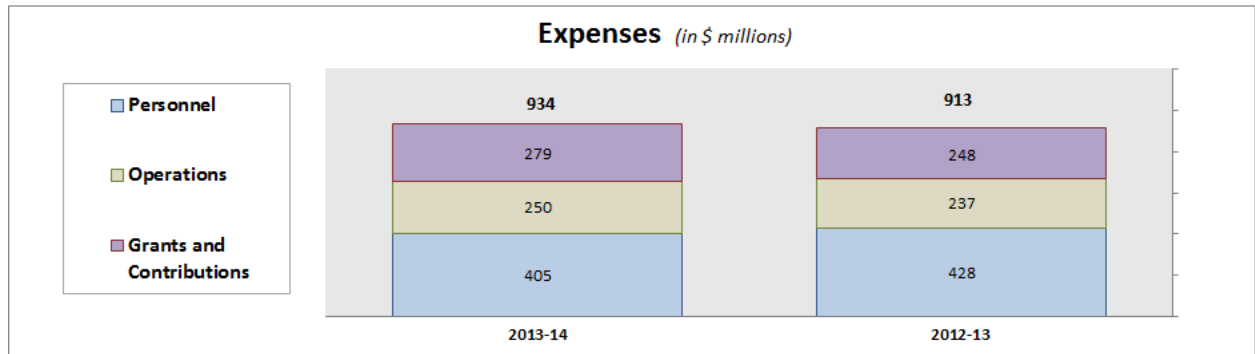
Detailed explanation and analysis of liability and asset balances can be found in the *Variance and Trend Analysis* section.

Consolidated Statement of Operations and Departmental Net Financial Position

NRC's 2013-14 net cost from continuing operations, before government funding and transfers, was \$777.2 million compared to a restated \$757.9 million in 2012-13. Total revenue of \$156.3 million represents a slight increase from the \$155.3 million earned in 2012-13 while expenses increased by \$20.4 million to \$933.5 million.

Additional parliamentary funding provided a \$30.7 million increase in grants and contribution expenses. Operating expenses increased by \$13.4 million from \$236.9 in 2012-13 to \$250.3 million in 2013-14, while personnel expenses decreased by \$23.7 million from \$428.5 million in 2012-13 to \$404.8 million in 2013-14. NRC's \$23.2 million net surplus from operations after government funding and transfers (restated \$42.4 million in 2012-13) resulted in the Departmental net financial position to increase from a restated \$551.3 million to \$574.5 million.

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



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

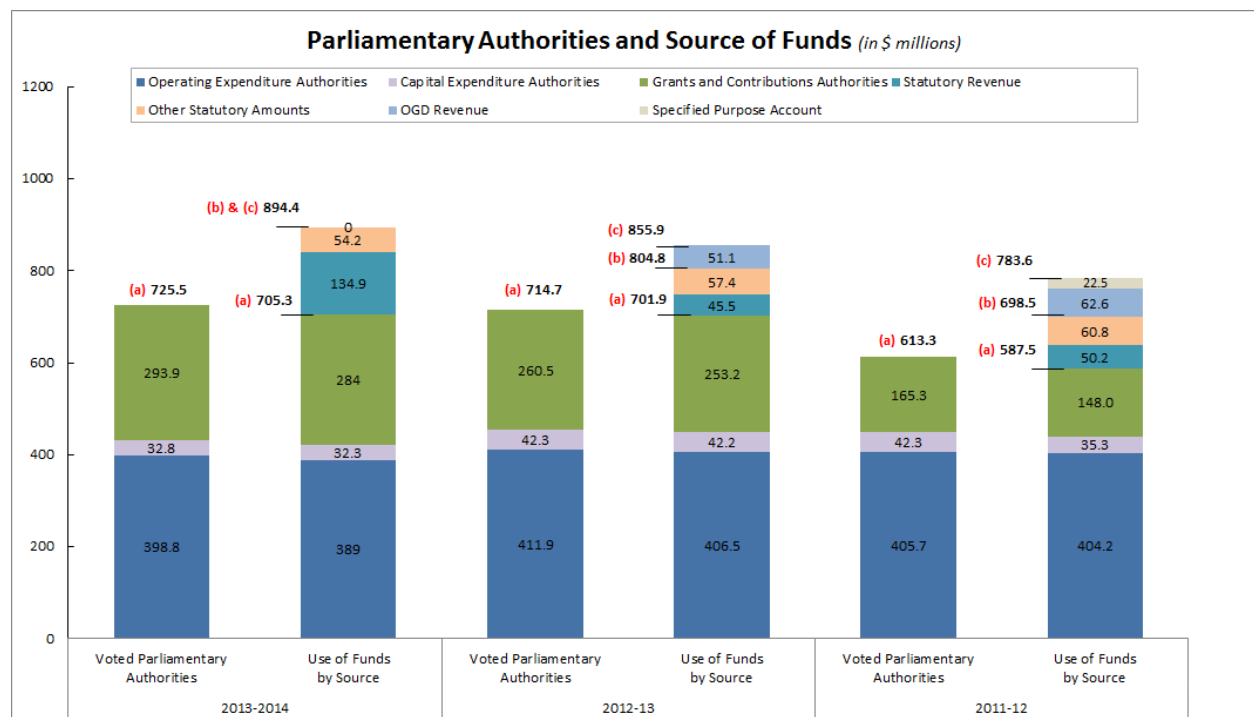
Consolidated Statement of Cash Flow

The net cash provided by the Government of Canada in 2013-14 was \$774.6 million (\$647.4 million in 2012-13). Cash used in operating activities increased by \$115.4 million and cash used in capital investing activities increased by \$12.1 million.

Parliamentary Authorities

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

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



- a) Total Voted Parliamentary Authorities: NRC is provided with Parliamentary Authorities in three Votes: Vote 60 – Operating expenditures, Vote 65 – Capital expenditures, and Vote 70 – Grants and contributions.
- b) Total Authorities Used: The total authorities used during the year (and shown in Note 3 of NRC's Consolidated Financial Statements). These include voted authorities and statutory authorities.

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

In 2013-14, total voted parliamentary authorities increased by \$10.8 million. This increase is composed of a \$33.4 million increase in grants and contributions funding, offset by a decrease of \$13.1 million in operating expenditure authorities and a \$9.5 million decrease in capital expenditure authorities.

NRC's actual use of funds applied to voted parliamentary authorities totalled \$705.4 million. In addition, NRC had \$134.9 million of revenue funded expenditures and spent \$54.2 million under other statutory authorities (mainly contributions to employee benefit plans).

DISCUSSION AND ANALYSIS

Uncertainties

NRC funds the majority of its salary, operating and capital expenditures from parliamentary authorities. The non-salary portion of this funding is fixed with no indexing for price increases and inflation.

NRC owns and manages 180 specialized buildings and facilities across Canada that comprise approximately 555,000 square meters of space. It also has equipment and informatics base (excluding CFHT assets) of \$ 564.6 million in cost, with \$138.5 million in net book value (restated \$567.9 million in cost, with \$145.5 million in net book value in 2012-13). NRC's capacity to fund the upgrade or replacement of these assets from its parliamentary authorities is limited. However, through its 5 year investment plan, NRC is investing appropriate funds to maintain its buildings and laboratories.

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

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

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

Budget 2014

- **TRIUMF:** NRC has an existing annual reference level of \$19.3 million in funding for TRIUMF, Canada's National Laboratory for Particle and Nuclear Physics. Since 1976, NRC has provided over \$1.2 billion in funding to TRIUMF of which a total of \$44.3 million was provided during 2013-14. Economic Action Plan 2014 proposed the renewal of sunseting funding for TRIUMF by allocating \$222 million in funding over five years starting in fiscal year 2015-16, of which \$126 million is sunseting.
- **Canada Accelerator and Incubator Program (CAIP):** CAIP funding, introduced in Economic Action Plan 2013, used to help outstanding and high-potential incubator and accelerator organizations expand their services to entrepreneurs added \$58.5 million in funding over five years to NRC's reference levels. Economic Action Plan 2014 proposed to add a further \$40 million over four years starting in fiscal year 2015-16 to increase the impact of CAIP in helping entrepreneurs realize the business potential of their ideas.
- **Youth Employment Strategy:** Economic Action Plan 2014 proposed to provide NRC with \$30 million over two years starting in fiscal year 2014-15 to support full-time internships in small and medium-sized enterprises undertaking technical research and development projects. This funding will supplement NRC's existing annual funding level of \$5 million for its youth employment program.

Budget 2013

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

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- Supporting the Commercialization of Research by Small and Medium-Sized Enterprises: Economic Action Plan 2013 announced \$20 million over three years to help small and medium-sized enterprises (SMEs) access research and business development services at universities, colleges and other non-profit research institutions through a new pilot program. NRC's Industrial Research Assistance Program (NRC-IRAP) will receive \$10 million in 2014-15, and \$10 million in 2015-16, the final year of funding.

Other

- Digital Technologies Adoption Pilot Program (DTAPP): Administered by NRC-IRAP, DTAPP represented a significant investment into the Canadian economy in an effort to increase the productivity growth of SMEs in Canada through the adoption of digital technologies across all sectors. NRC-IRAP received program funding of \$37.5 million in 2013-14 for this initiative.
- Genomics R&D Initiatives: The Genomics R&D Initiatives (GRDI) is a federal program that coordinates genomics R&D in 6 federal departments and agencies. GRDI supports public policy objectives and key national interest in human health, agriculture and food safety, environment and natural resources management. NRC received funding of \$8.8 million in 2013-14.

Foreign Currency: In its normal course of operation, NRC makes some of its purchases in foreign currencies which expose it to foreign exchange risk. NRC purchased C\$53.6 million worth of goods and services in foreign currencies in 2013-14 (C\$40.6 million in 2012-13); \$50 million (93%) of the foreign currency purchases were in US dollars (\$37.1 million or 91% in 2012-13). During 2013-14, it cost NRC an average of \$1.067 Canadian dollars to purchase \$1 US (\$1.006 in 2012-13).

In addition, NRC had C\$27.8 million worth of foreign currency receipts in 2013-14, of which \$27 million (97%) was received in US currency compared to \$23.8 million received in foreign currency in 2012-13 of which \$23 million (97%) was in US currency.

Revenue: NRC activities generate revenues which can be reinvested in its operations. In 2013-14, 22% of NRC's salary, operating and capital expenditures were funded by revenue from external sources (16% in 2012-13).

NRC is focused on increasing its external revenue generating activities to strengthen its future financial sustainability.

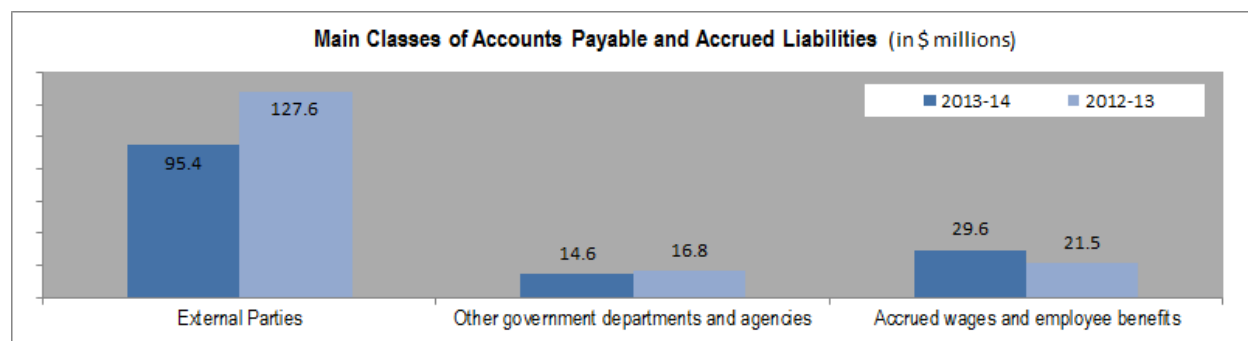
Variance and Trend Analysis

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

Liabilities

NRC's total liabilities were \$272.6 million as at March 31, 2014, a decrease of \$48.4 million from the prior year balance of \$321 million. NRC's liabilities consist of the following:

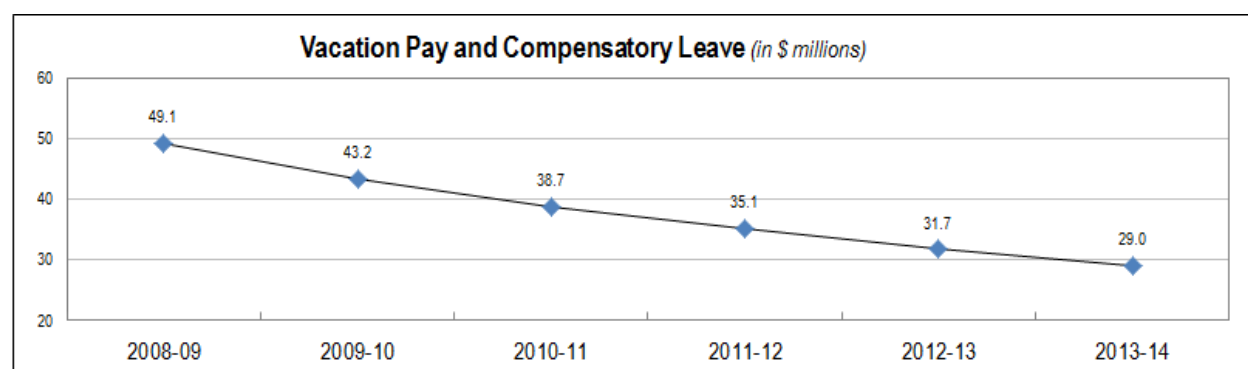
Accounts Payable and Accrued Liabilities: NRC's accounts payable and accrued liabilities as at March 31, 2014 were \$141.2 million (\$167.6 million as at March 31, 2013). The following shows the three largest categories:



The \$32.2 million decrease in accounts payable to external parties is primarily the result of lower accounts payable for NRC-IRAP at year-end which decreased from \$74.9 million in 2012-13 to \$42 million in 2013-14. The \$8 million increase in accrued wages and employee benefits is due to estimated retroactive payments on expired collective agreements. There was also a \$2.2 million decrease in accounts payable to other government departments and agencies.

Also included within Accounts Payable and Accrued Liabilities are contractor holdbacks, environmental liabilities, sales tax payable and CFHT accounts payable (totalling \$1.7 million in 2013-14 and \$1.7 million in 2012-13), as detailed in note 5 of the consolidated financial statements.

Vacation Pay and Compensatory Leave: Vacation pay and compensatory leave liabilities have decreased in each of the past five fiscal years to represent \$29 million at March 31, 2014, which is a \$2.7 million decrease from 2012-13. This reflects recent collective bargaining agreements and management oversight activities taken to manage outstanding vacation liabilities.



Lease Inducements: Lease inducements totalled \$40.4 million as at March 31, 2014. This balance relates to tangible capital assets provided to NRC under three lease agreements with monetary consideration below fair market value. These leases of facilities were established at nominal cost with the University of

Western Ontario, the University of Alberta, and the University of Prince Edward Island, to accommodate NRC research facilities.

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

Deferred Revenue: Deferred revenue represents funds received for which NRC has an obligation to other parties for the provision of goods, services or the use of assets in the future. The March 31, 2014 balance of \$9.9 million (\$11.5 million in 2013) is explained in Note 6 of the consolidated financial statements. The significant components include:

- \$8.2 million of deferred revenue from research services and technical services projects. These are the two largest categories of revenue at NRC. When funds are received prior to work commencing or when the amount of funds received exceeds the value of the work performed as of March 31, 2014, deferred revenue is recorded. Revenue is then recognized as services are provided.
- \$1.7 million received to construct a facility for the Hitachi Electron Microscopy Product Centre (HEMIC) as part of a collaboration agreement. This amount was deferred and the revenue will be recognized over the life of the collaboration.

Employee Future Benefits: Employee future benefits represent the liability for severance benefits payable to employees upon termination of employment with the public service. This allowance is established at year end by applying an actuarial rate to total annual salary cost of NRC's indeterminate employees. This rate is determined by Treasury Board based on the liability for the government as a whole.

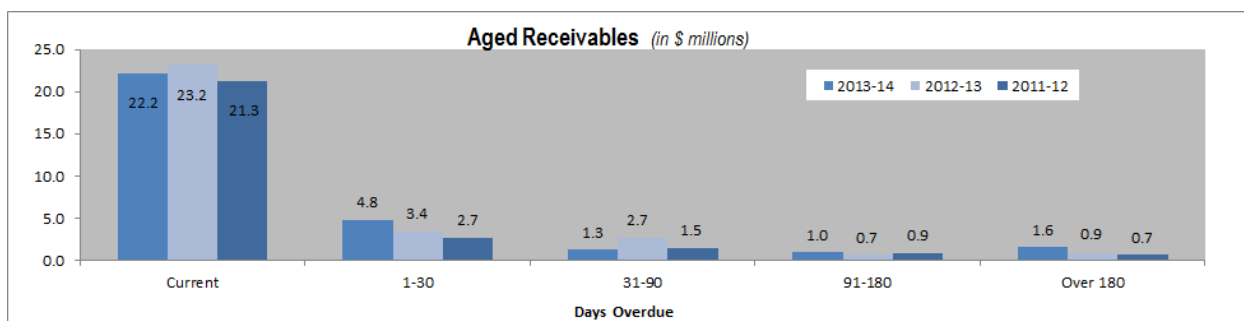
A change to the employment conditions for employees within the Technical Category (TO) category has resulted in the cessation of the accumulation of their severance benefits beginning in 2013-14. Some of these employees have elected to have the balance of their accumulated benefits either partially or fully paid out, reducing NRC's total liability. This, as well as a decrease in salary expense for NRC's continuing workforce explains the \$15 million decrease from \$67.2 million in 2012-13 to \$52.2 million in 2013-14. Note 7b) of the consolidated financial statements provides additional details.

Financial Assets

Due from the Consolidated Revenue Fund (CRF): This account represents the amount of cash that NRC is entitled to withdraw from the federal government treasury. This includes cash to discharge liabilities for which NRC has already received parliamentary authorities as well as revenue received but not spent. NRC's due from the CRF was \$271.6 million as at March 31, 2014 and \$290.7 million as at March 31, 2013. This \$19.1 million net decrease is primarily due to a \$32.2 million decrease in accounts payable and accrued liabilities offset by a \$14.2 million increase in revenues and available for use in future years.

Accounts Receivable: Accounts receivable and advances, as detailed in Note 8 of the financial statements, totalled \$30.1 million as at March 31, 2014, a \$0.5 million decrease from March 31, 2013. This includes accounts receivable with external parties worth \$27.7 million (\$26.4 million as at March 31, 2013). The corresponding allowance for doubtful accounts was \$774 thousand as at March 31, 2014 (\$327 thousand as at March 31, 2013), a favourable amount considering the total value of NRC's external revenues. Another \$3.1 million (\$4.5 million as at March 31, 2013) of the accounts receivable balance relates to other government departments and agencies.

Aged Accounts Receivable: The graph below presents the aged accounts receivable from external parties, other government departments, and employee advances. In 2013-14, 92% (95% in 2012-13) of accounts receivable were aged 90 days or below indicating that receivables are collected in a timely manner.



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

As part of its mandate to promote industrial innovation in Canada, NRC provides financial assistance to firms through access to equipment, intellectual property and incubation space in its laboratories and Industrial Partnership Facilities. NRC has on occasion taken an equity position in a company in return for assistance provided or in exchange for outstanding debts to NRC. NRC divests of equity investments by taking into account the interests and market liquidity of the company involved.

The full value of equity investments recorded in the Consolidated Statement of Financial Position reflects NRC's investment in publicly traded companies as its shares in privately held corporations are deemed to have no market value. NRC's equity investments decreased from \$215 thousand to \$3 in 2013-14 as a result of the sale of Avivagen Inc. shares and the write-down in the book value of Pharma Gap Inc., both publicly traded companies.

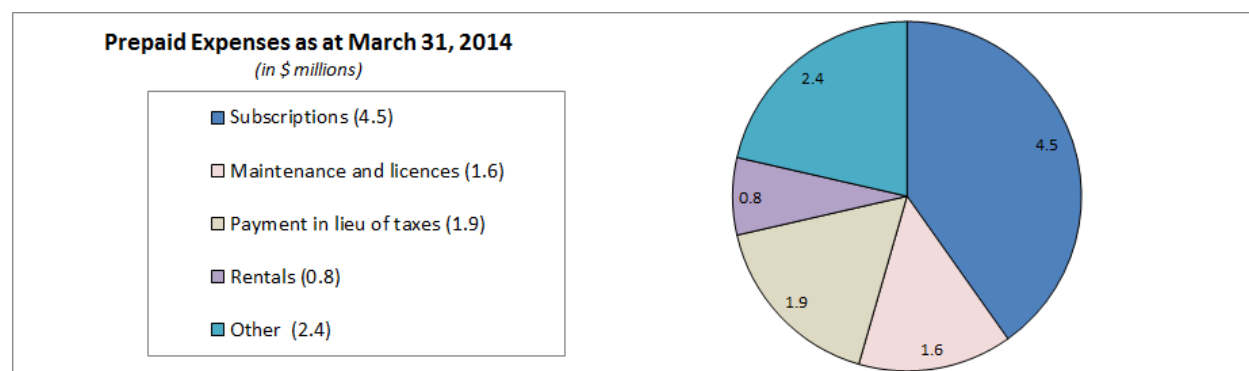
The following table provides an overview of NRC's 2013-14 equity holdings:

Company	Opening balance (\$)	Book value of equity investments acquired, sold or written off during the year (\$)	Closing balance (\$)	Market value of publicly traded equity investments (\$)
Avivagen Inc.	189,046	(189,046)	0	0
Pharma Gap Inc.	25,869	(25,868)	1	0
Cequence Energy Ltd.	1	-	1	568
Privately held Corporation	1	-	1	n/a
Total	214,917	(214,914)	3	568

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

Non-Financial Assets

Prepaid Expenses: NRC's prepaid expenses as at March 31, 2014 were \$11.2 million (\$12.9 million as at March 31, 2013), the components of which are shown in the chart below. Subscriptions make up the largest component of NRC's prepaid expenses. Canada's Science Library subscribes to many of the world's major scientific and technical journals and databases.



Endowment Fund Investments: The Holmes Endowment Fund is an investment bequeathed to NRC in July 1994. Up to two-thirds of the endowment fund's annual net income is used to finance the H.L. Holmes award. The award covers a one or two-year period and provides an opportunity for Canadian post-doctoral students to study at world famous graduate schools or research institutes. In 2013-14, NRC provided one grant totalling \$76 thousand to a recipient of the 2013 NRC H.L. Holmes Award. The recipient is using a total award of \$200 thousand to fund two years of collaborative research at the Boston Massachusetts General Hospital and the Department of Genetics at Harvard Medical School. The research is on the role of Polycomb – Ribonucleic acid (RNA) interactions in cell fate control.

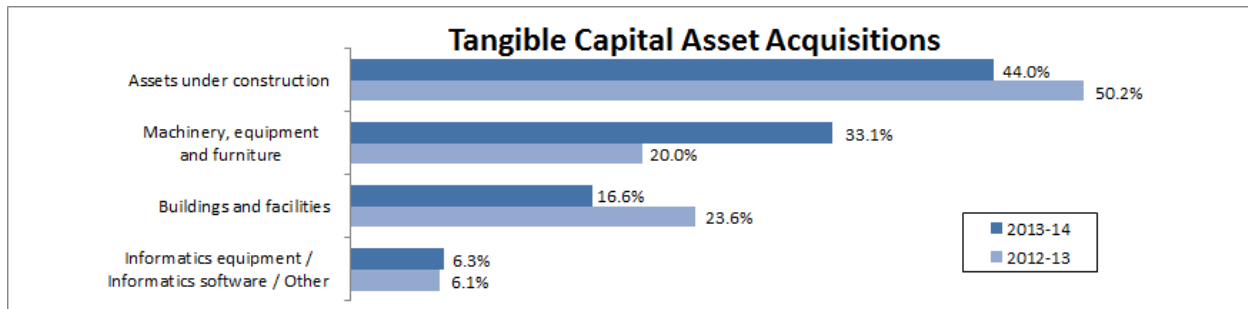
The endowment fund had a fair market value of \$5.1 million on March 31, 2014 (\$5.1 million on March 31, 2013). The investments within the portfolio had an average effective return of 3.63% in 2013-14 (3.99% in 2012-13). The endowment fund is presented at an amortized cost of \$4.9 million (\$4.8 million as at March 31, 2013) on the Consolidated Statement of Financial Position and not at fair value. Note 10 of the consolidated financial statements provides additional detail.

Tangible Capital Assets: The net book value of NRC's tangible capital assets decreased from a restated value of \$523.4 million in 2012-13 to \$519.9 million in 2013-14. Total tangible capital asset acquisitions amounted to \$58.7 million with amortization of \$58.5 million and net adjustments, disposals and write-offs of \$(3.8) million. Note 11 of the consolidated financial statements provides additional detail.

During 2013-14, NRC increased the capitalization threshold of tangible assets from \$5,000 to \$10,000 to reflect the threshold of *Treasury Board Accounting Standard 3.1 – Capital Assets*. Comparative figures and opening balances were restated. Note 4 of the consolidated financial statements provides additional details.

Acquisitions

The additions to tangible capital assets of \$58.7 million in 2013-14 represents an increase of \$13.6 million from the restated \$45.1 million spent in 2012-13. The majority of this increase comes from a \$10.4 million increase in machinery, equipment and furniture purchases. The most significant acquisition categories were assets under construction (\$25.9 million or 44%), machinery, equipment and furniture (\$19.4 million or 33%) and investments in building and facilities (\$9.7 million or 17%)



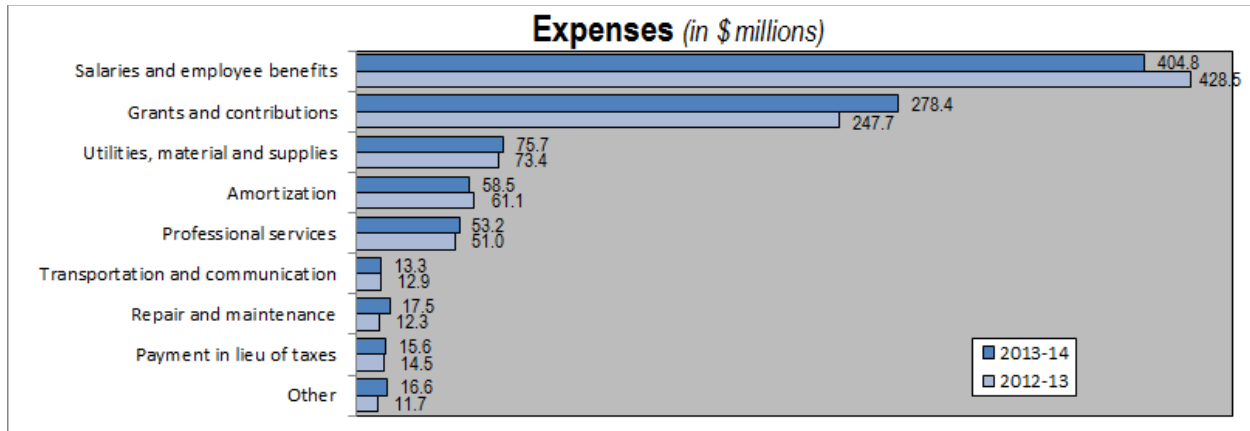
The following represents significant tangible capital assets expenditures over \$750,000 in 2013-14:

- \$11.1 million of building recapitalization work was completed in 2013-14 including: electrical system upgrades (\$0.9 million), roofing (\$2.6 million), mechanical system upgrades (\$3.1 million), site work (\$1.4 million), interior architectural work (\$1.1 million), elevator upgrades (\$0.5 million), and exterior building upgrades (\$1.5 million).
- NRC's Information and Communication Technologies' Portfolio invested \$3.6 million towards the construction of a Metal-Organic Chemical Vapour Deposition (MOCVD) reactor. This investment will be completed in 2014-15 and is expected to significantly increase the NRC's Advanced Photonic Component and the Short Wavelength Infrared Imaging programs' revenues.
- \$2.4 million was invested in an energy and mechanical system retrofit at the 100 Sussex Drive Building (in addition to \$1.8 million invested in 2011-12 and \$5.3 million in 2012-13). This investment will be completed in 2014-2015 and is expected to provide \$1.0 million annually in energy cost savings.
- NRC's Human Health Therapeutics Portfolio invested \$1.7 million (in addition to \$1.2 million invested in 2012-13) in Genomics Technologies and Plant Growth facilities required for the NRC Canadian Wheat Improvement Flagship Program. This program will make a significant contribution to improving the yield, sustainability, and profitability of Canadian wheat production.
- \$1.5 million of electrical work to re-distribute power from an existing NRC-owned transformer, as well as the transfer of feeders from existing Hydro One Networks Inc. (HONI) owned transformers to new HONI transformers. A second phase to this project is expected to start in 2014-15 where a 5 megawatt compressor/exhauster will be upgraded. This overall investment is required as the current equipment has exceeded its life expectancy leaving Aerospace programs exposed to facility down time, client dissatisfaction, lost revenues, and failure to achieve program deliverables.
- NRC's Aerospace Portfolio invested \$1.1 million (in addition to \$1.2 million invested in previous years) to refurbish one of NRC's helicopters to replace the actuators with a modern fly-by-wire system. The system will enable the helicopter to serve as an airborne simulator. The experimental fly-by-wire capacity meets the high demand from Canadian Industry and the Department of National Defence.
- NRC's Ocean, Coastal and River Engineering Portfolio invested \$0.8 million for the renewal of a large test basin area, the implementation of a new segmented wave generator, and the erection of a segregation wall to separate the basin area from the main office areas of the facility. This facility is used to test and assess scaled models of marine and coastal infrastructure under simulated sea and wave conditions in order to optimize and validate designs prior to construction.

Expenses

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

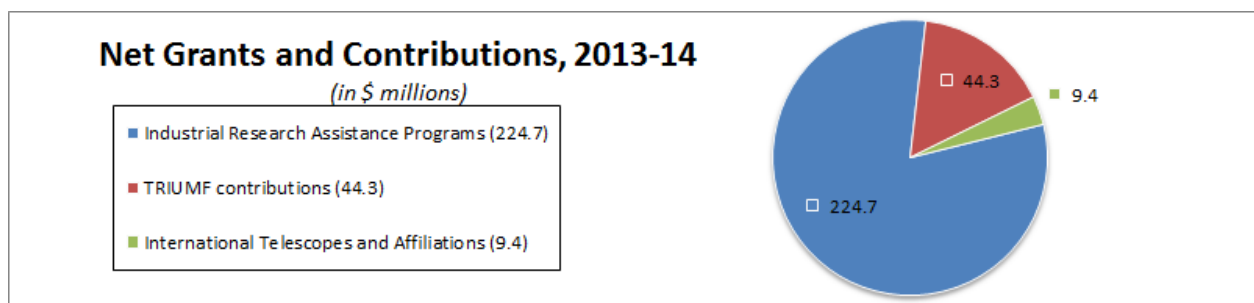
NRC's restated expenses increased from \$913.1 million in 2012-13 to \$933.5 million in 2013-14. The two largest categories of expenses are salaries and employee benefits (43.4% of total expenses in 2013-14 and 47.0% in 2012-13), and grants and contributions (29.8% of total expenses in 2013-14, 27.1% in 2012-13). The following illustrates expenses by type:



Total expenses of \$933.5 million were \$44.8 million lower than the amount forecast in NRC's Future Oriented Financial Statements reported in the 2013-14 Report on Plans and Priorities (RPP), and shown as Planned Results on the Consolidated Statement of Operations and Departmental Net Financial Position. The variance is primarily due to salaries and employee benefits expense (\$41.9 million lower than forecast).

Salaries and Employee Benefits: Salaries and employee benefits include such costs as gross salaries and wages, overtime pay, retroactive salary adjustments, employee entitlements and allowances, severance pay, pension, and health and dental plan costs. The decrease in salaries and employee benefits is primarily the result of fewer full-time equivalent employees (FTEs) compared to 2012-13. Additionally, ratified collective agreement settlements with certain NRC employees' classifications are no longer eligible to accumulate severance benefits, thereby, reducing annual severance liability expenses.

Grants and Contributions: Grants and contributions increased by \$30.7 million, from \$247.7 million in 2012-13 to \$278.4 million in 2013-14, as shown in the chart below, for which \$29.6 million can be attributed to NRC-IRAP's funding increase, from \$195.1 million in 2012-13 to \$224.7 million in 2013-14, as announced in the 2013 Budget.



Utilities, Material and Supplies: Utilities, materials and supplies include expenditures such as electricity, natural gas, serial renewals, electronic data processing (EDP) equipment with cost under \$10,000, fuel, software, laboratory equipment and laboratory products. Utilities, material and supply costs increased by \$2.3 million from a restated \$73.4 million in 2012-13 to \$75.7 million in 2013-14. Spending in these areas depends on the varying nature of projects from year to year which can have different material and supply requirements.

Amortization: Tangible capital assets yield benefits over many accounting periods. As such, NRC's use of tangible capital assets to provide services is recognized as an expense on a straight-line basis over the estimated useful life of each asset class. Amortization expense amounted to \$58.5 million in 2013-14 (restated \$61.1 million in 2012-13).

Professional Services: Professional services increased by \$2.2 million in 2013-14 to \$53.2 million, from \$51 million in 2012-13. The increase was in part due to new spending of \$0.6 million for the Concierge Service at IRAP. The new Concierge Service provides a single access point where small and medium-sized enterprises can find high quality, timely advice to help them innovate and accelerate their growth. The increase was also due in part to spending of \$0.6 million in secondments related to the Algal Carbon Conversion flagship project collaboration. NRC receives e-mail, data centre and network support unit as well as the acquisition and provision of hardware and software for end users device from Shared Services Canada (SSC) following the Government of Canada initiative to centralize these services in 2012-2013. The services received from SSC are recognized as services received without charge in professional services expenses. A total of \$16.4 million was recognized in expenses, as shown in Note 14a) of the financial statements.

Transportation and Communication: Transportation and communication expense was steady, increasing by \$0.4 million in 2013-14, from \$12.9 million in 2012-13 to \$13.3 million in 2013-14.

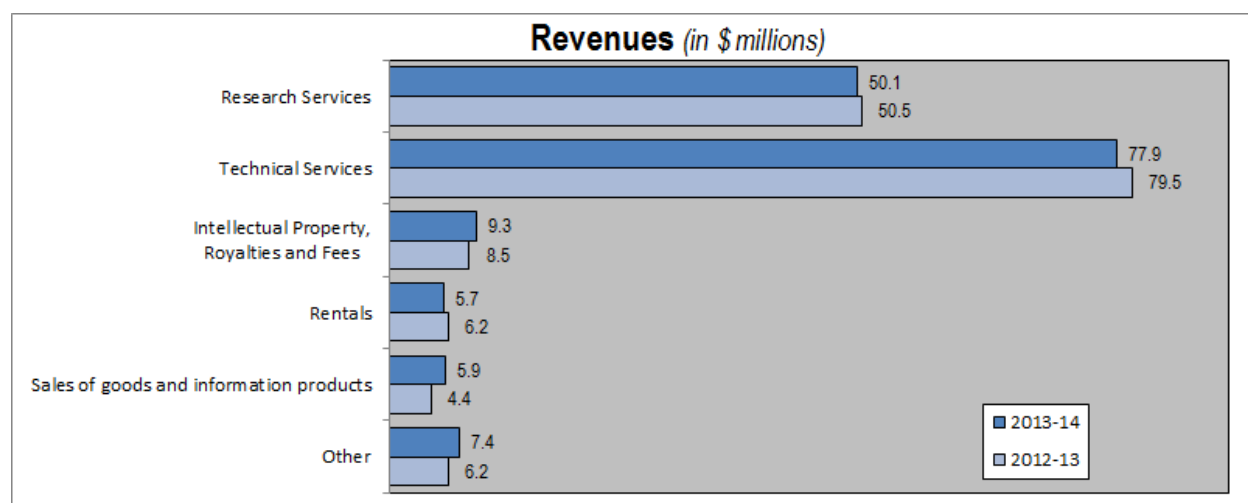
Repair and Maintenance: NRC has a significant amount of infrastructure investments such as buildings, facilities, and research equipment. The repair and maintenance costs related to the maintenance of these assets totalled \$17.5 million in 2013-14, an increase from the restated \$12.3 million incurred in 2012-13. Expenditures in this area can vary from year to year based on many factors including requirements for services.

Payment in lieu of taxes (PILT): NRC owns property and is exempt from paying property tax as an agency of the Government of Canada. The Government of Canada, as a property owner, supports the principle that it should share the cost of local government equitably with other property owners in the community since federal properties benefit from municipal services. As such, federal departments and agencies, including NRC, transfer amounts to municipalities in lieu of taxes. Public Works and Government Services Canada (PWGSC) assesses the amount to be transferred by NRC under the PILT program each year. In 2013-14, NRC paid PILT of \$15.6 million (\$14.5 million in 2012-13).

Other: Other expenses of \$16.7 million (restated \$11.7 million in 2012-13) include, but are not limited to, rental charges of \$7.3 million (restated \$7.1 million in 2012-13), patent award costs of \$2.4 million (\$1.6 million in 2012-13), loss on disposal of tangible capital assets of \$2.4 million (\$0.1 million in 2012-13), costs of goods sold of \$2.0 million (\$0.7 million in 2012-13) and information costs of \$1.4 million (\$1.8 million in 2012-13).

Revenues

NRC's total revenues were overall steady slightly increasing from \$155.3 million in 2012-13 to \$156.3 million in 2013-14. The following chart provides a breakdown of the revenue components:



Revenues of \$156.3 million were \$33.1 million lower than the amount forecast in NRC's Future Oriented Financial Statements reported in the 2013-14 RPP. The refocusing of NRC research activities which began during 2012-13 continued into 2013-14, and revenue growth over this period of transition was slower than expected.

Technical Services: In 2013-14, \$77.9 million or 50% (\$79.5 million or 51% in 2012-13) of NRC revenues were generated from technical services. These are standard services delivered using existing NRC technology and expertise with projects that have a low level of technical risks and do not generate new intellectual property.

Research Services: In 2013-14, \$50.1 million or 32% (\$50.4 million or 33% in 2012-13) of NRC revenues were generated from research services, which are non-standard services delivered with incremental intellectual contribution and some level of technical/scientific risks. This includes Collaborative Research Services, where clients can provide intellectual contribution to the project and share the total cost of the project.

Intellectual Property Royalties and Fees: Royalty revenue is earned from companies that license the rights to use NRC technologies. Royalties are typically based on a percentage of the licensee's sales. In 2013-14, NRC generated \$9.3 million in royalties which represents a 10% increase over the \$8.5 million realized in 2012-13.

Rentals: Facilitating access to NRC researchers and facilities is an important part of technology transfer at NRC. To this end, NRC provides laboratory space to companies on a commercial basis often as part of a collaboration or technology transfer agreement. Revenue from lease and use of property amounted to \$5.7 million in 2013-14, compared to \$6.2 million in 2012-13.

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 \$5.9 million in 2013-14, as compared to \$4.4 million in 2012-13. The largest component of revenue derived from the sale of goods and information products are sales of codes most significantly National Building Codes by NRC's Construction Portfolio.

Other: Other revenue of \$7.4 million (\$6.2 million in 2012-13) include, but are not limited to, grants and contributions revenue of \$2.9 million (\$2.9 million in 2012-13) and lease inducement revenue of \$2.5 million (\$2.5 million in 2012-13).

Revenue earned on behalf of government: Treasury Board Accounting Standards require revenues earned on behalf of government be backed out of the Consolidated Statement of Operations and Departmental Net Financial Position. NRC earned \$117 thousand of interest revenues on outstanding receivables in 2013-14. The 2012-13 negative balance of \$128 thousand resulted from a reversal of NRC-IRAP Technology Partnerships Canada (TPC) program interest revenue from 2011-12, a program which NRC stopped administering on behalf of Industry Canada in 2011-12.