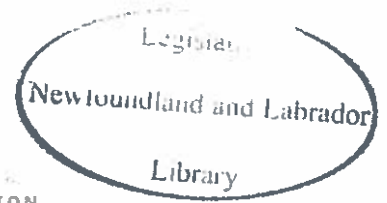




RDC

RESEARCH & DEVELOPMENT CORPORATION
NEWFOUNDLAND AND LABRADOR



Research & Development Corporation
Annual Report 2010-11



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RDC

Contents

Message from the Chair	2
Introduction	5
RDC Overview	5
Lines of Business	7
Primary Clients	8
RDC Programs	8
Vision	13
Shared Commitments	13
Performance Highlights	16
Report on Performance	21
Opportunities and Challenges Ahead	29
Financial Statements	30

Cover Photo by Dave Howells for RDC

Message from the Chair

Increased research and development (R&D) activities drive innovation, create wealth, and generate economic growth. The Research & Development Corporation

(RDC) has made strides to support R&D growth in Newfoundland and Labrador. RDC has begun to

expand research and development in the

province by building a foundation for

innovation by investing in R&D capacity

that will fuel industry growth and

improve the economic well-being of

the province for future generations.

RDC has been given a clear mandate

and a leading role to strengthen

the focus, quantity, quality, and

relevance of R&D for this province's

long-term economic benefit. Since

the establishment of the corporation in

2009, considerable effort has been made

to build the programs, policies, and services

needed to cultivate

R&D in key areas that present

a competitive advantage and development

opportunity for this province. Our programs are

specifically designed to enhance the building

blocks for successful R&D – highly-qualified

people, innovative research and world-class

infrastructure. RDC has made landmark investments in 2010-11 in support of those

building blocks.

To enhance the number of highly-qualified people performing R&D in the

province, in 2010-11, RDC invested in several research chairs, post-doctoral

fellowships, and a training program for offshore technology research. Additionally,

our Ocean Industries Student Research Awards aim to foster a new generation

of researchers in oceans research. Initiatives such as these work towards

RDC's commitment to attracting and retaining highly qualified researchers in

Newfoundland and Labrador.

Innovative research is a second building block necessary for a successful

innovation landscape. We have enhanced and strengthened our research

commitments during 2010-11 by focusing on emerging and growing research

areas such as energy, ocean technology, and mining.

"RDC has made landmark investments for the future of Newfoundland and Labrador."



World-class R&D infrastructure is another essential component of an innovative environment that is internationally competitive. Our infrastructure investments at our post-secondary institutions have contributed to the strengthening of collaborative R&D partnerships between academia and industry in the province for all R&D performers.

These investments demonstrate that RDC not only offers the funding necessary to make these projects a reality, but also provides the leadership and direction necessary to expand the province's R&D capacity.

This report is based on the transitional Strategic Plan that was presented for 2010-11. The plan was a snapshot of RDC's broader strategic approach, and set the stage for our full three year plan starting in 2011-12. Our initial strategic directions explored what could be accomplished in one year, and signalled our goals for future endeavours. This performance report highlights our accomplishments and the steps we have taken to further R&D in Newfoundland and Labrador in 2010-11.

As Chair of RDC, and on behalf of our Board of Directors, I am pleased to submit RDC's annual performance report for 2010-11. The Board is accountable for the direction and preparation of the report and results reported herein.

Developed in accordance with the legislative requirements of the *Transparency and Accountability Act*, this report fulfils the corporation's obligation as a category one entity to provide an account on achievements and progress over the last fiscal year. My signature, below, indicates the Board's full accountability for the annual results of the organization.

Sincerely,



M. Jacqueline (Jackie) Sheppard, Q.C.
Chair, Board of Directors
Research & Development Corporation



Photo by Dave Howells for RDC

RESEARCH & DEVELOPMENT CORP
NEWFOUNDLAND AND LABRADOR

RDC



RDC's mandate is to strengthen the focus, quantity, quality, and relevance of R&D for the long-term economic benefit of Newfoundland and Labrador.

Introduction

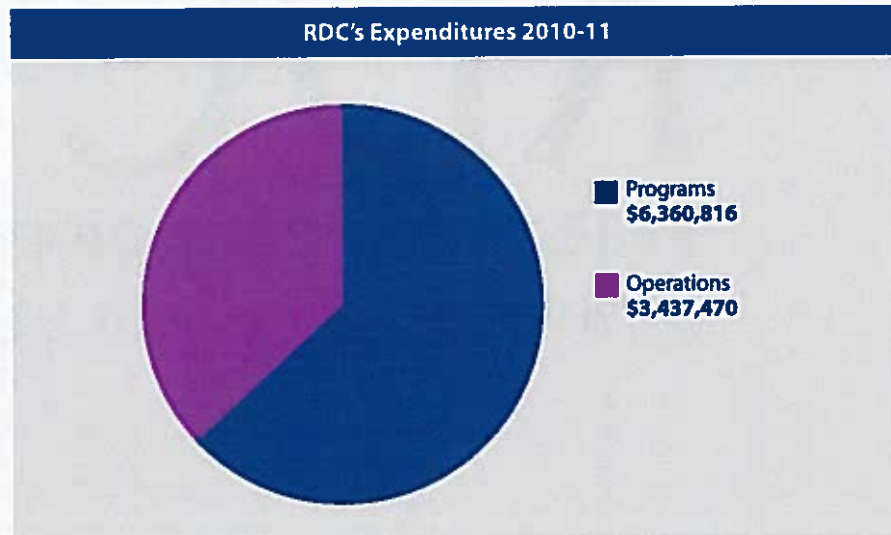
In accordance with the *Transparency and Accountability Act*, the 2010-11 annual report for the Research & Development Corporation illustrates the success of the corporation over the last year of operations. As a category one entity under the *Transparency and Accountability Act*, RDC is accountable for achieving outcomes. However, for RDC's first year of operations the annual report will be focused on the activities and outputs that support our strategic directions over the past year.

This performance report is based upon the transitional Strategic Plan of the corporation for 2010-11. The Strategic Plan for 2010-11 was a snapshot of the broader strategic approach of the Corporation in anticipation of the full three year plan in 2011. Therefore, the specified measures and indicators for this performance report are not exhaustive, but the activities of the corporation will be expanded upon throughout the report.

RDC Overview

RDC was established in 2009 to improve research and development in Newfoundland and Labrador with the enactment of the *Research and Development Council Act*. As a provincial Crown corporation, RDC is expected to achieve public policy objectives that recognize R&D as an important catalyst for innovation. RDC has been set up to operate at arm's length from the provincial government, but is nonetheless held to a high standard for public accountability and transparency.

RDC currently employs 30 staff in its St. John's offices, organized in four divisions: Program Delivery & Operations, Strategy & Program Development, Policy, Evaluation & Government Relations, and Finance. In 2010-11, RDC received an annual budgetary allocation of \$25.2 million from the legislature with \$19.3 million dedicated to R&D funding programs. RDC's expenditures are depicted below.



These members meet the statutory requirements for Directors with relevant research, business, and academic expertise.

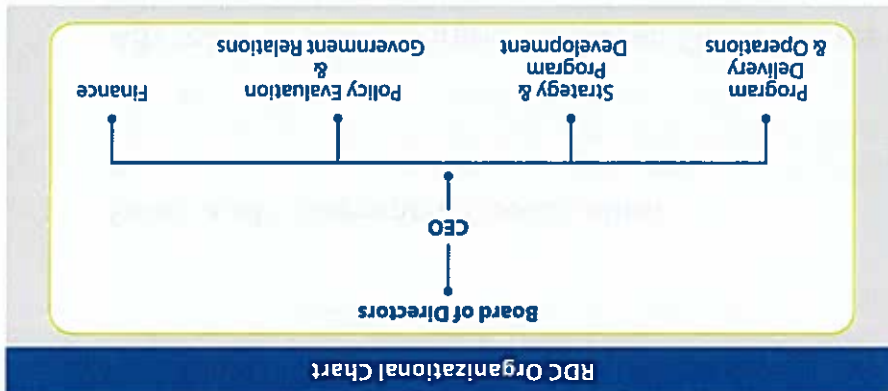
- Ms. M. Jacqueline Sheppard, Chair
- Dr. Lawrence Cochrane, Vice-Chair
- Mr. Alan Brown, Director
- Mr. Gary Dinn, Director
- Dr. Ray Gosline, Director
- Dr. Kari Kveseth, Director
- Dr. Terry-Lynn Young, Director
- Mr. Glenn Janes, Non-Voting
- Mr. Dennis Hogan, Non-Voting

The current constitution of the Board follows:

All RDC employees are guided by the values of Excellence, Focus, Integrity, Collaboration, and Accountability. These values represent the core priorities of the organization's culture, and guide behavior and decision-making within the corporation.

RDC was established through legislation in 2009, with provision for an independent Board of Directors. Within RDC's statutory context, the Board and management are responsible for setting the corporate strategy and determining how it will be implemented. The Board comprises both residents and non-residents of the province that represent RDC's key stakeholders, including the private sector, researchers, a publicly-funded post-secondary educational institution, and the provincial government department responsible for innovation. RDC's Board of Directors consists of 7 to 11 members.

Governance



Lines of Business

RDC's business model is to deploy human and financial resources in support of four key areas, or lines of business:

Policy and Government Coordination

RDC influences and supports the development and implementation of policy, programs, and other government initiatives that impact R&D growth and development opportunities in Newfoundland and Labrador.

Advocacy and Collaboration between Client Groups

RDC establishes and promotes collaboration between businesses, academia, and government.

Program Development and Delivery

RDC provides financial support to others who undertake R&D and play a role in the stewardship of the investment.

R&D Asset Investment

RDC invests in people, equipment, and facilities that support collaborative R&D.



RDC
CEO Glenn
Janes, left, and
Dean Pelley of
Mad Rock Marine
Solutions INC

RDC focuses on the critical needs vital for business growth. Fifteen local businesses are receiving funding from RDC's \$2.2 million investment to enhance business-led research and development (R&D) in the province. RDC's investment is helping these companies conduct leading-edge R&D and strengthen Newfoundland and Labrador's economy. Funding is provided through two of RDC's industry programs: R&D Proof of Concept and R&D Vouchers, both of which are tailored to assist local companies with their R&D activities. These types of projects are growing local R&D capabilities and enhancing innovation and business competitiveness.

Photo by Greg Locke

RDC PROGRAM ALIGNMENT WITH RDC PRIORITIES	
R&D Vouchers	Facilitates business access to local, national, and international scientific/technical equipment, expertise, and research facilities Establishes or strengthens collaborative R&D between business and academic researchers, research facilities, and other R&D performers
R&D Proof of Concept	Increases technical capacity and reduces the financial risk of performing R&D activities through to proof of concept Supports business R&D that leads to new or improved products, services, and processes with a clear sight to market
Petroleum R&D Accelerator	Strengthens Newfoundland and Labrador's capacity as a R&D performer in support of petroleum exploration, development, and operations

RDC Programs

RDC works with both federal and provincial governments to advance R&D. RDC works with provincial government departments and agencies on policy and strategic initiatives that align with provincial priorities. RDC works with federal government departments and agencies to provide the provincial source of funding often required to leverage national programs that support R&D and as a collaborator/partner on strategic initiatives where federal and provincial priorities align.

GOVERNMENT

RDC works with academia to support the development of highly-qualified researchers, to focus R&D activities on priority areas relevant to business needs, our competitive advantages and development opportunities, to improve the quality of R&D infrastructure in Newfoundland and Labrador, and to build strong collaborative relationships among R&D performers.

ACADEMIA

RDC works with companies to increase their R&D capabilities, and enhance innovation and competitiveness. RDC offers funding programs and targeted initiatives aimed to enhance the quality and quantity of R&D performed by businesses.

BUSINESS

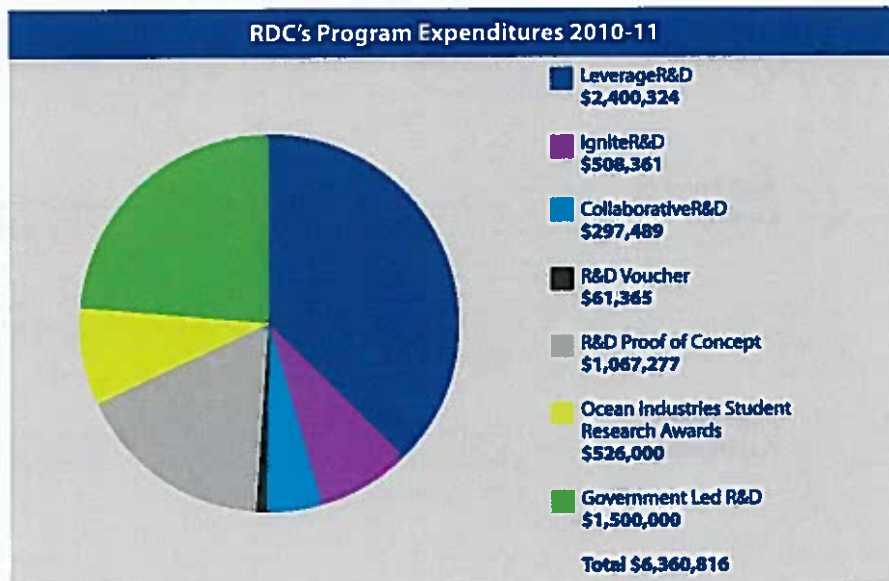
RDC has three primary client groups: business, academia, and government.

Primary Clients

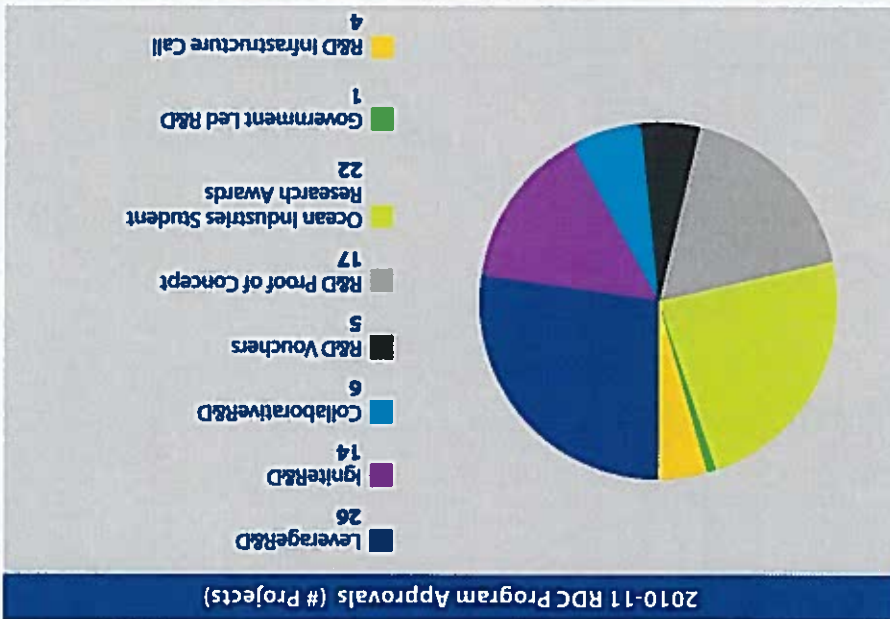
RDC PROGRAM	ALIGNMENT WITH RDC PRIORITIES
Ocean Industries Student Research Awards	Attracts and develops world-class talent in ocean industries – both the highly-qualified people required by business and the next generation of R&D leaders
Academic Funding Programs	<ul style="list-style-type: none"> Strengthens institutional R&D capacity Provides funding for new researchers (IgniteR&D) Leverages against federal and other sources (LeverageR&D) Supports business-academic collaboration (CollaborativeR&D)
Industrial R&D Fellowships (IRDF)	Enables business to hire post-doctoral researchers
GeoEXPLORE	Enhances geoscience R&D capacity and academic, business, and government collaboration in support of mineral and petroleum exploration and development

To complement its suite of R&D programs, RDC is continually building new programs to meet identified needs. This is an intensive process that involves stakeholder consultations, statistical and economic analysis, program design, and evaluation. New programs that meet broad-based and commonly recognized gaps in the provincial R&D landscape are typically added to RDC's repertoire. Tailored programs that are intended to meet specific, targeted needs of individual sectors or sub-sectors are delivered as required.

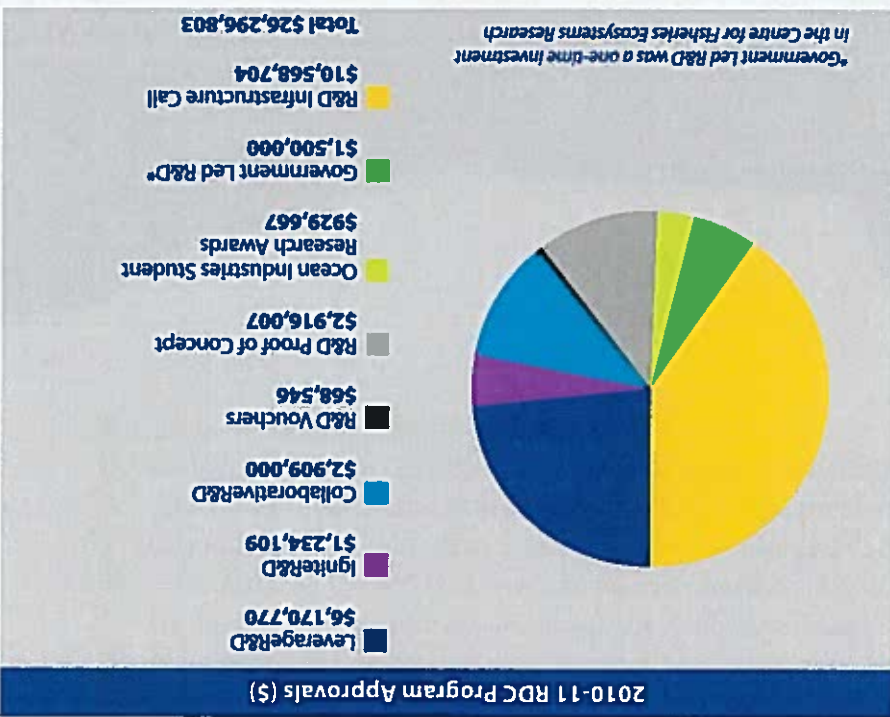
The following chart illustrates RDC's program expenditures for the fiscal year. Many of the projects that RDC approves are multi-year investments. These projects will only claim a certain amount for each fiscal year, and do not illustrate our multi-year commitments.



It is not always the program with the highest investment that has the largest impact. The Ocean Industries Student Research Awards, R&D Proof of Concept, and IgniteR&D fund more projects, but do so at lower award amounts. In this respect, more businesses and researchers are able to benefit and expand their R&D activities.



Infrastructure is a crucial building block for expanding R&D in the province. As a result of a competitive R&D Infrastructure Call, RDC will provide over \$10 million to address R&D infrastructure needs of our post-secondary institutions. This is our largest funding commitment for 2010-11, and will support four large-scale projects.



Our program approvals illustrate our approval rate and our future commitments to these programs.

One of Canada's largest marine laboratories received a landmark \$8.3 million investment from RDC in September 2010. Memorial University's Ocean Sciences Centre opened in 1967 and today is an internationally-renowned facility for research on cold-water organisms. RDC's funding is being used to build new infrastructure including a deep-sea water supply to provide consistent, low temperature sea water year-round. The cold-water source will enable researchers to expand the amount of time they can hold deep-water animals for research.

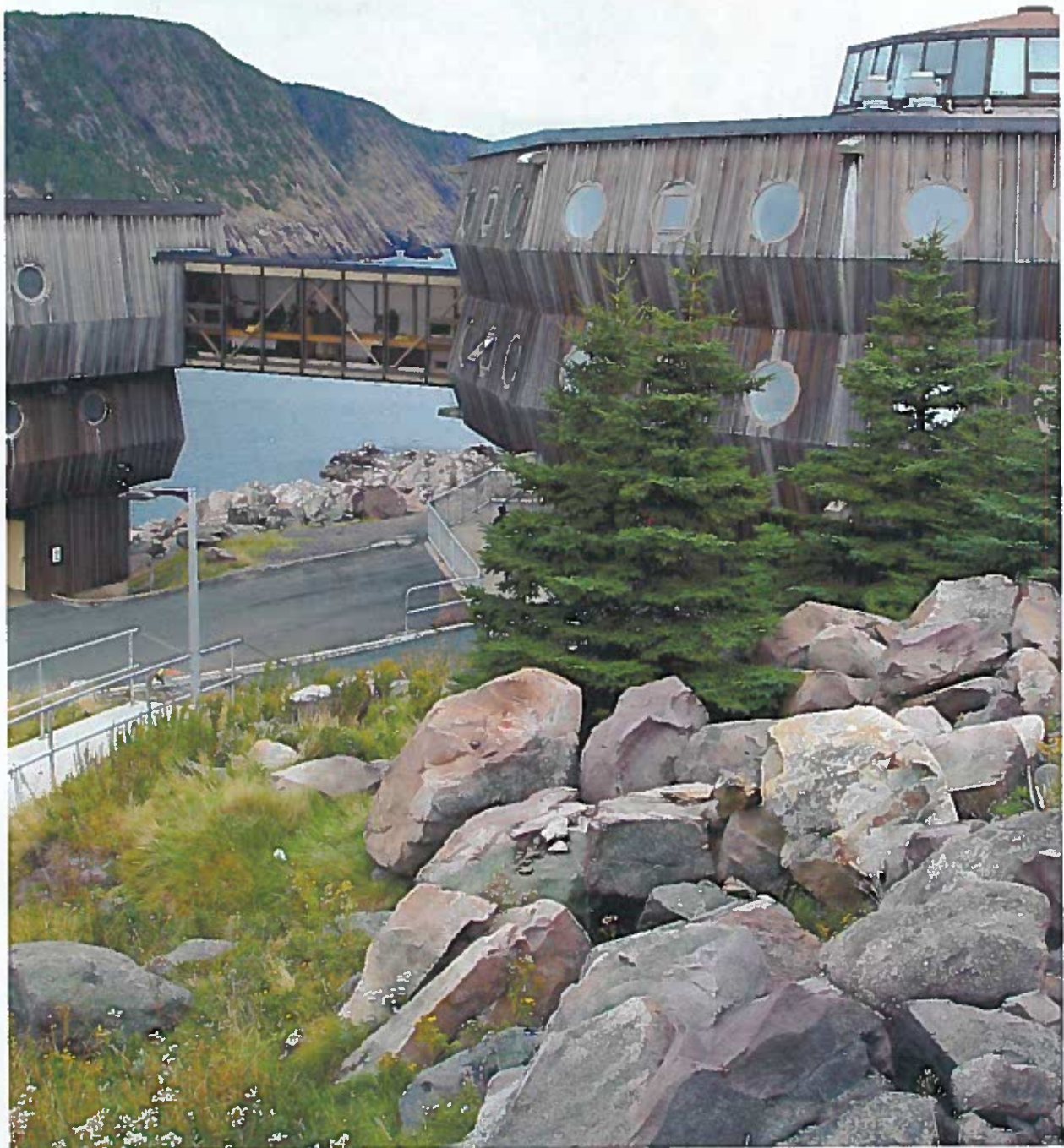




Photo courtesy of Memorial University

One of Memorial University of Newfoundland's newest research chairs was appointed in December 2010 thanks to funding from RDC as well as industry and government partners. Dr. Faisal Khan was named the Vale Research Chair in Process Risk and Safety Engineering thanks to an \$800,000 RDC investment. The chair is also supported by \$1.5 million from Vale and \$300,000 from the Atlantic Canada Opportunities Agency (ACOA). The chair will expand and support Memorial's Faculty of Engineering and Applied Science safety and risk engineering program and research capabilities.

Vision

Research and development fuels innovation and creates economic growth and prosperity in Newfoundland and Labrador.

Shared Commitments

As the provincial public body responsible for strengthening R&D in the province, there are multiple stakeholders that RDC collaborates with to deliver on the provincial government's commitment to R&D. RDC plays a strategic role through the creation of programs, initiatives, and partnerships that will drive R&D growth in Newfoundland and Labrador.

BUSINESS

One of the key priorities of RDC is to increase business-performed R&D in the province. Due to this, RDC is heavily engaged with business clients, industry associations, and industry groups. Collaborative relationships are essential to growing R&D capacity in the province. Over the past year, industry representatives have served on program advisory boards and play a key role on our Board of Directors by providing insight into commercial R&D needs.

In the last year, RDC worked with industry associations, such as the Newfoundland and Labrador Oil and Gas Industries Association (NOIA) and OceansAdvance Inc. to promote R&D in key industries in the province. RDC also worked with Petroleum Research Atlantic Canada (PRAC), a not-for-profit organization that facilitates petroleum R&D activities in priority areas identified by industry.

RDC has partnered with such companies as The Boeing Company, Altius Minerals Corporation, Suncor Energy Inc., Vale, and Chevron Canada Limited to create research chairs and fund specialized equipment and facilities that benefit priority industries of Newfoundland and Labrador. Projects that engage companies and academic researchers help grow technical capacity and competitive advantage, while supporting RDC's commitment to strengthening R&D in the province.

ACADEMIA

RDC works with Memorial University and the College of the North Atlantic (CNA) to expand R&D activities in the province.

Over the past year, RDC has worked with CNA to review funding proposals, provide information sessions on our activities, and work with industry stakeholders to find opportunities for collaboration through our program offerings.

Government is also a client of RDC as we are often asked to advise on R&D policies and programs and collaborate on specific projects and initiatives. In the past we have worked with Department of Natural Resources, Cabinet Secretary, Forestry and Agrifoods Agency, Department of Fisheries and Aquaculture, and Department of Innovation, Business and Rural Development (IBRD). RDC also collaborates with government; one such example is the Innovation Committee of the Strategic Partnership, which is led by IBRD. One shared commitment that RDC delivers on in collaboration with IBRD is the commitment to enhance the R&D capacity of the province as stated in the *Provincial Innovation Strategy: A Blueprint for Prosperity*.

Our government partnerships, both provincially and federally, offer us opportunities to develop and review funding proposals for R&D, and to create programs that are responsive to the R&D landscape in Newfoundland and Labrador; in our first full year of operations, we engaged our federal partners such as the Atlantic Canada Opportunities Agency (ACOA), Natural Sciences and Engineering Research Council of Canada (NSERC), and the Canada Foundation for Innovation (CFI), among others, to learn about the federal funding environment, to promote the research strengths of this province, and to pursue co-funding opportunities.

As a crown corporation, RDC works with the provincial government as our owner, partner, and client. RDC is accountable to and receives its annual budget from the provincial government.

GOVERNMENT

RDC also works closely with Memorial University. We support the university's efforts to attract future researchers, expand R&D infrastructure, and secure increased levels of research funding. In 2010-11, we funded 22 Ocean Industries Student Research Awards and launched a second round of the student research awards. In March, 2010, a competitive R&D Infrastructure Call was launched to provide up to \$10 million to support identified R&D infrastructure needs of provincial post-secondary institutions. We continually strive to increase our partnerships with industry collaborators and federal partners to enhance R&D capacity in the province.



RDC partnered with the Natural Sciences and Engineering Research Council of Canada (NSERC), Petroleum Research Atlantic Canada (PRAC), and Memorial University to create the NSERC CREATE Training Program for Offshore Technology Research at Memorial. The program will build on the research strengths in support of Canada's research priorities in natural resources and energy, as well as the province's priority on ocean research.

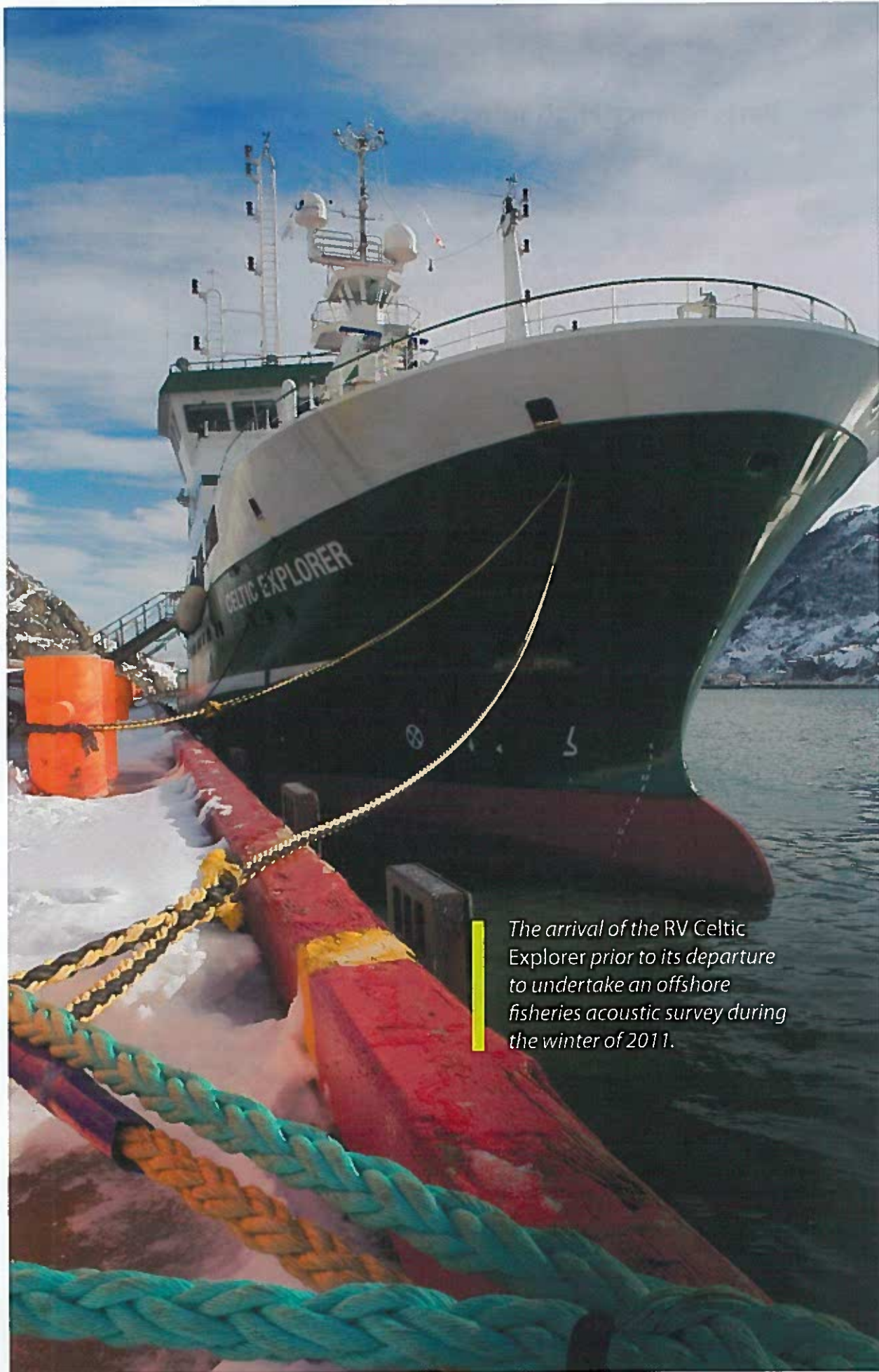
Performance Highlights

It is RDC's mission to increase the capacity of business, academia, and government to perform, collaborate, and utilize R&D in priority areas through the strengthening of the province's R&D activities, infrastructure, and highly-qualified people. As the table below shows, in our first full year of operations, RDC almost doubled the number of approved R&D projects over our 2009-10 baseline with over \$26m of total R&D investment in the 2010-11 fiscal year. RDC's number of total approved projects also doubled in 2010-11, with 47 more approved applications. RDC approved 17 R&D Proof of Concept projects, and provided more money to academia through the R&D Infrastructure Call (\$10m), and the Ocean Industries Student Research Awards (\$929,667). 2010-11 was also the first year that a large investment was made in support of government-led R&D (\$1.5m). These investments demonstrate RDC's goal of increasing investments in business-performed R&D, and investing more in people and infrastructure.

RDC PROGRAMS	APPROVED PROJECTS 09-10	APPROVED PROJECTS 10-11	RDC INVESTMENT 09-10	RDC INVESTMENT 10-11
Leverage R&D	22	26	\$12,094,457	\$6,170,770
Ignite R&D	14	14	\$935,868	\$1,234,109
R&D Vouchers	5	5	\$56,147	\$68,546
R&D Proof of Concept	3	17	\$469,072	\$2,916,007
Ocean Industries Student Research Awards	N/A	22	N/A	\$929,667
R&D Infrastructure Call	N/A	4	N/A	\$10,568,704
Collaborative R&D	4	6	\$1,192,500	\$2,909,000
Government Led R&D *	N/A	1	N/A	\$1,500,000
TOTAL	48	95	\$14,748,044	\$26,296,803

* Centre for Fisheries Ecosystems Research

Business investment in R&D is important both for business-performance of R&D (R&D carried out directly by business and/or their partners) and business-utilization of R&D (R&D that is relevant to business and meets technical or identified needs). RDC is diversifying Newfoundland and Labrador's base of R&D performers by encouraging business-initiated R&D projects and collaboration amongst business, academic, and government clients. RDC aims to accomplish these tasks through its funding programs for business: R&D Vouchers and R&D Proof of Concept, and through its academic programs, Leverage R&D and Collaborative R&D, that ensure alignment with industry needs and opportunities for growth.



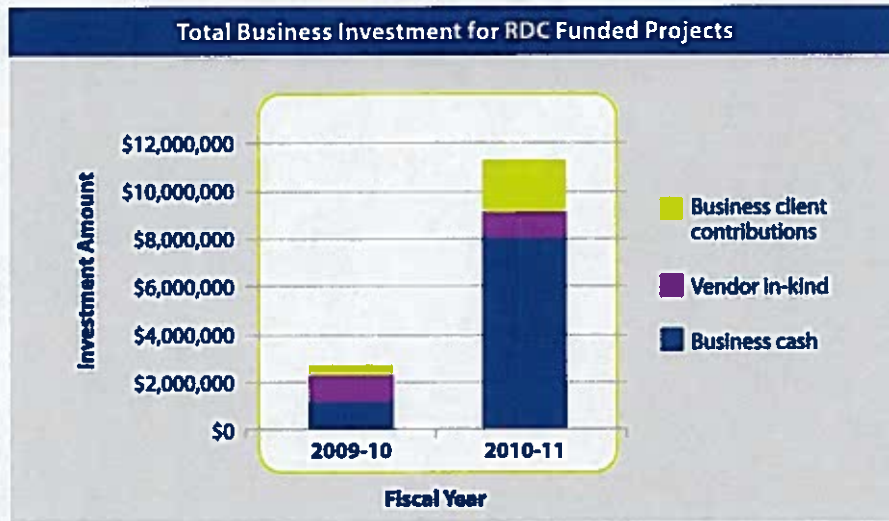
The arrival of the RV Celtic Explorer prior to its departure to undertake an offshore fisheries acoustic survey during the winter of 2011.

RDC's \$1 million investment is enabling Memorial University's C-CORE to look north. Funding announced in January 2011 will support the creation of the LOOKNorth Centre, which will be dedicated to the research, development, and commercialization of technologies and services to maximize the potential of northern resources.



Compared to the 2009-10 baseline, in RDC's first full fiscal year, RDC was able to significantly increase both the number of business clients and the total amount of business investment in academic-led R&D, totaling more than \$11 million across all R&D projects.

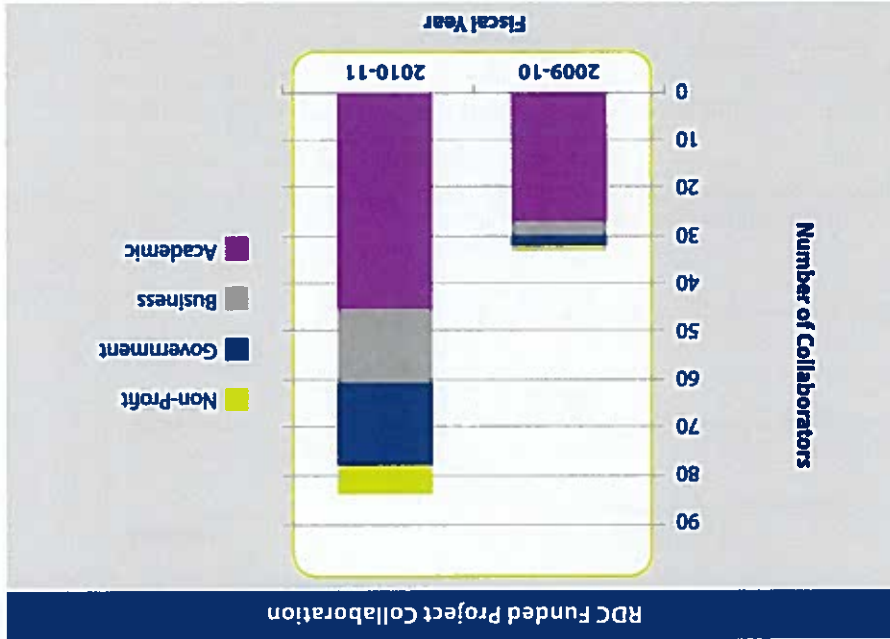
Did you know RDC is helping fuel R&D in key sectors here in Newfoundland and Labrador including ocean technology, fisheries, marine communications, manufacturing, and information technology?



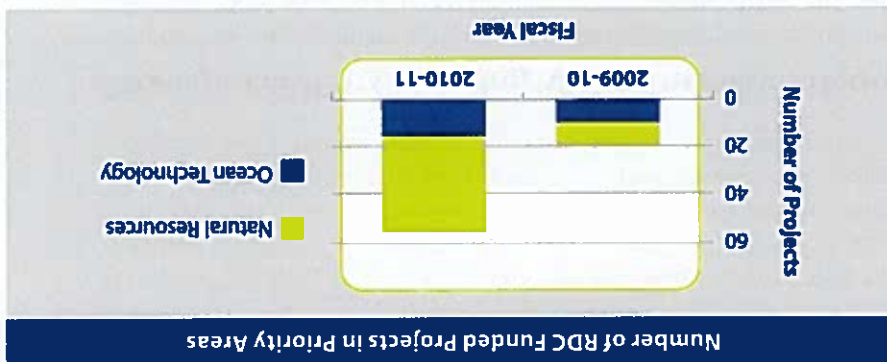
Focusing on priority areas is vitally important for the future well-being of Newfoundland and Labrador. Priority areas present a development opportunity and a potential strategic competitive advantage for R&D in this province. To realize development opportunities and support areas of competitive advantage, RDC will focus new programs and initiatives on priority areas including ocean technology and natural resource industries (i.e. energy, mining, fisheries, agriculture and forestry).

In 2010-11, RDC funded 56 R&D projects focused in priority areas. Of those projects, 41 were from the natural resources industries, which was more than four times the 2009-10 baseline number. RDC also committed more than \$20 million in R&D projects focused on priority areas, almost double the investment from the 2009-10 baseline.

Ice-covered regions, such as the Arctic, are now much more accessible for research thanks to funding from RDC. The new Autonomous Ocean Systems Laboratory (AOSL) at Memorial University was officially opened in June 2010. The new uniquely designed and equipped space is helping catalyze research on autonomous oceans systems as well as foster a culture of team work in applied research related to harsh environments, such as the Arctic.



Collaborations between R&D performers are an important tool for enhancing R&D projects, as well as building R&D capacity. Collaborative research programs have the potential to ensure that research is relevant to the market, and offer the prospect of increasing private sector investment. RDC recognizes that building strong linkages between local, national, and international R&D performers is critical to enhancing R&D within the province and has made collaborative research a driving aspect of its funding programs. Over the 2010-11 fiscal year, RDC significantly strengthened R&D collaboration amongst R&D performers by increasing the number of collaborative partners involved in R&D projects across non-profit, government, business, and academic stakeholders. Projects funded in 2010-11 had almost three times the number of collaborators on projects, over 2009-10 with most significant increases in business and government collaborators. Increased R&D collaborations will further enhance the R&D environment of the province.



Report on Performance

For 2010-11, RDC developed two goals to address strategic issues. Strategic issues guide the priorities of the organization, and inform the articulation of goals. Strategic issues must be addressed for the organization to realize its mandate, vision, and mission. RDC's transitional Strategic Plan focused on two strategic issues: catalyzing R&D in thematic priority areas and building a strong foundation for R&D.

Strategic ISSUE 1: Catalyzing R&D in Thematic Priority Areas

Priority areas are essential for the future well-being of Newfoundland and Labrador. These areas present a strategic competitive advantage for research and development in this province.

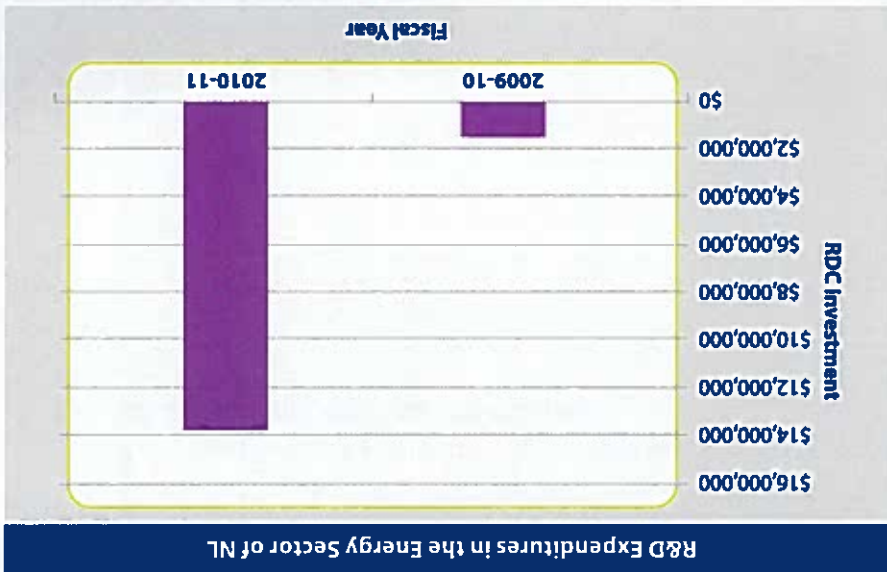
STRATEGIC ISSUE 1: CATALYZING R&D IN THEMATIC PRIORITY AREAS

Goal:	By 2014, the Research & Development Corporation will have catalyzed research and development activities in thematic priority areas in Newfoundland and Labrador.
2011 Objective	By March 31, 2011, the Research & Development Corporation has contributed to an increase in R&D activity in the energy sector in Newfoundland and Labrador.
Measure:	Increased R&D effort in the energy sector from all sources
Indicators:	Increased R&D expenditure in the energy sector in NL Increased research projects in the energy sector in NL Increased R&D collaboration and partnerships in the energy sector in NL

In 2010-11, RDC contributed to an increase in R&D expenditures in the energy sector. The amount of approved funding for projects in the energy sector jumped from \$1,555,372 in 2009-10 to \$13,838,583 in 2010-11. This increase was mainly due to two large infrastructure investments totaling \$8,848,776, both of which benefit the energy industry. Also in 2010-11, the Ocean Industries Student Research Awards began, contributing \$257,500 to six offshore petroleum projects. Since 2009-10, RDC increased its commitments to energy-related projects by \$12 million.

SOURCE OF FUNDING		FISCAL YEAR	FISCAL YEAR
		2009-10	2010-11
Federal Government		\$1,382,310	\$15,064,383
Academic Institutions		\$799,500	\$1,981,082
Business Cash		\$1,192,500	\$10,011,669
Vendor In-Kind		\$388,488	\$736,179
Business Client Contribution		\$0	\$109,379
Non-Profit Organizations		\$115,500	\$0
TOTAL		\$3,878,298	\$27,902,692

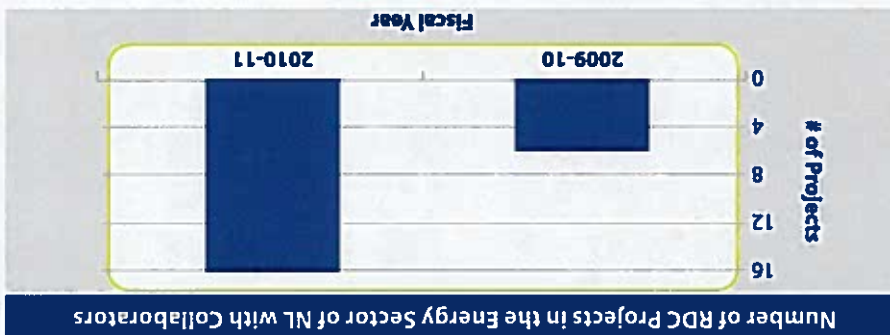
In addition to RDC's direct investment in the sector, additional sources of funding were leveraged for projects in the energy sector for the 2009-10 and 2010-11 fiscal years. In 2009-10, \$3.9 million was leveraged for projects in this sector, and in 2010-11, that investment jumped to \$27.9 million with significant increases in funding leveraged from business and the federal government.



RDC continues to engage the petroleum industry to identify opportunities to enhance R&D capacity of supply and service companies through its Petroleum R&D Accelerator Program. As the scale of these projects are large, this will require considerable effort and industry engagement to move forward.

Dr. Ralf Bachmayer, Canada Research Chair in Ocean Technology at Memorial University, was interviewed by the media directly after the opening of the Autonomous Ocean Systems Laboratory in June 2010. RDC invested a total of \$540,755 in the project. The new lab is providing a uniquely designed/equipped space for researchers, including undergraduate and graduate students, co-op students and research engineers.

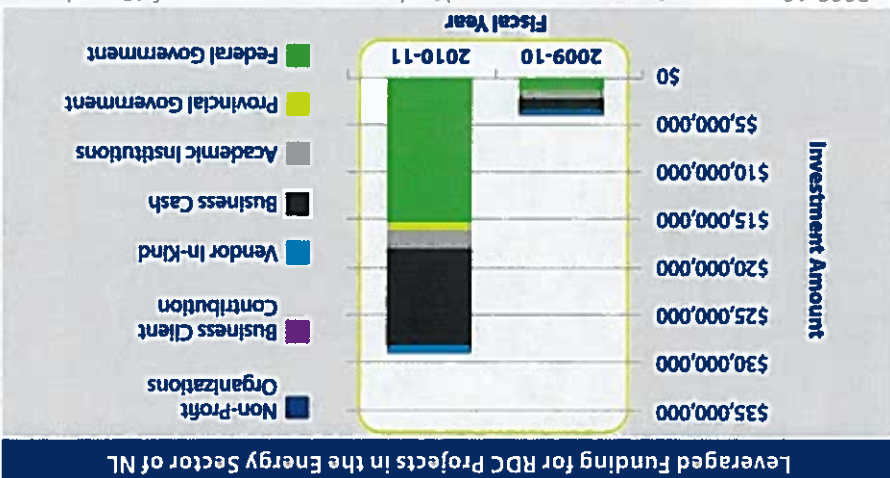




Increased R&D activity in the energy sector is also illustrated by the amount of collaborations and partnerships. RDC defines partnership as the engagement of R&D performers with funding partners, and the active participation of stakeholders in R&D related activities. This relationship can be viewed in the indicator above that illustrates the leveraged funding obtained for RDC projects in the energy sector. In 2010-11, leveraged funding increased by \$25 million and the number of funding partners increased by 40% (10 funding partners to 25). RDC's engagement in and sponsorship of energy workshops and conferences also illustrates our partnerships with our stakeholders. In 2009-10, RDC helped sponsor two energy workshops, and in 2010-11 RDC sponsored 5 energy-related workshops. Collaboration is defined as two or more R&D performers working together to achieve a common goal. In 2009-10, six out of seven energy projects had collaborators (86%). In 2010-11, 16 out of 17 projects (94%) had collaborators, increasing collaboration levels by 8%.



In 2009-10, seven projects were approved in the energy sector out of 48 total approved projects. In 2010-11, 23 projects in the energy sector were approved out of 95 total approved projects. This is a 10% increase in approved energy projects out of total approved projects.



Offshore engineering research in Newfoundland and Labrador received a major boost in February 2011 thanks to a total \$6.8 million investment from both RDC and Suncor Energy. The funding will allow for the construction of the Suncor Energy Offshore Research and Development Centre, expanding Memorial University's S.J. Carew Building. The new centre will provide critical dedicated space for innovative research and industry collaboration related to the ocean technology and offshore petroleum sectors – strategic investment areas for Suncor Energy, RDC, Memorial and the Province of Newfoundland and Labrador.



Photo courtesy of Memorial University

This section details the success of RDC's *Ocean Industries Student Research Awards*. The indicators from our 2010-11 transitional plan use student enrolment levels as indicators for increased student researchers in thematic priority areas; however, student enrolment is outside the mandate of RDC. Currently, we can state how many students were successful in receiving awards in thematic priority areas. As this program continues, RDC will be better placed to measure the impact. This program has on the research environment in provincial post-secondary institutions.

Last year, the *Ocean Industries Student Research Awards*, provided approximately \$1 million in funding to assist 22 student researchers. In total, eight doctoral, 12 masters, and two undergraduate students at Memorial University received awards in support of oceans research. The chart following illustrates the breakdown of the degree level of the approved students.

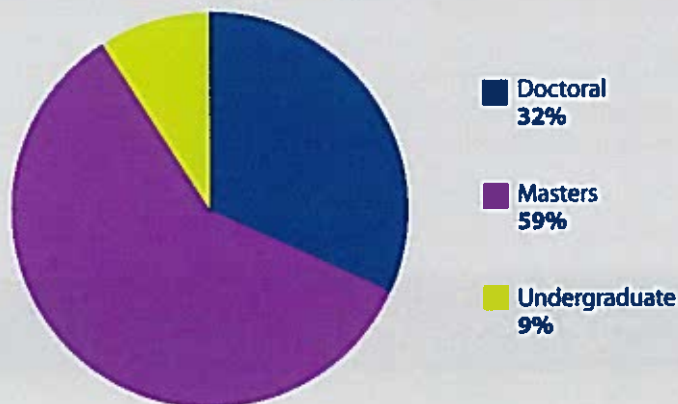
STRATEGIC ISSUE 2: BUILDING A STRONG FOUNDATION FOR R&D	
Goal:	By 2014, RDC will have improved Newfoundland and Labrador's foundational research and development building blocks: highly-qualified people, research, and infrastructure.
2011 Objective	By March 31, 2011, RDC has funded student researchers in thematic priority areas.
Measure:	Increased student researchers in thematic priority areas studying at local post-secondary institutions.
Indicators:	Increased number of undergraduate students enrolled in research programs at provincial post-secondary institutions Increased number of graduate students enrolled in research programs at provincial post-secondary institutions

Strategic ISSUE 2: Building a Strong Foundation for R&D

Research and development plays a critical role in innovation, industry and enterprise competitiveness, and overall economic performance. Highly-qualified people, research, and infrastructure are the building blocks of a successful research and development environment. RDC strives to improve the foundational conditions for research and development in Newfoundland and Labrador by strengthening these building blocks.

In the last fiscal year, RDC directed efforts to improve all three of these areas, with a focus on human resource capacity.

**Degree Level of 2010
Ocean Industries Student Research Awards (n=22)**



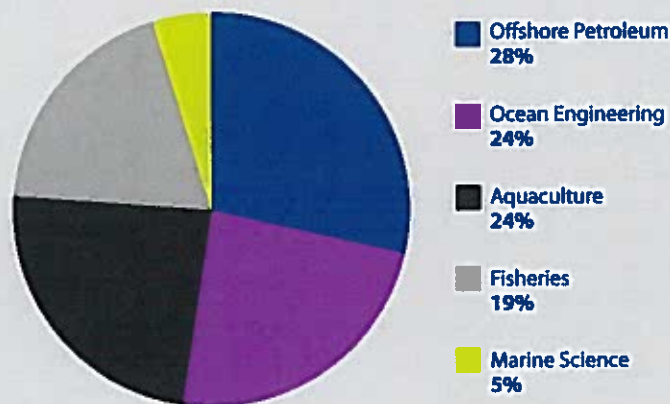
15 out of 22 students said that our research awards were important in helping them attend their post-secondary institution.

The awards assisted a significant number of Masters and Doctoral students, and this funding was important in assisting 68% of these students in attending Memorial University.

The research areas included in the student awards are offshore petroleum engineering, geosciences, ocean engineering, fisheries, aquaculture, marine science, and other areas that support innovation and the commercialization of ocean technologies. In the first year, the majority

of the projects were in offshore petroleum engineering, ocean engineering, and aquaculture. These projects further our commitment to expanding R&D in priority areas for the province.

**Research Focus of 2010
Ocean Industries Student Research Awards (n=22)**



Later in 2011, the second round of the student research awards closed with another strong group of student researchers applying for funding. The upcoming year will provide more opportunities to assist student researchers in this province, and increase the capacity of our highly-qualified people.

Did you know RDC's Ocean Industries Student Research Awards aims to foster the best and brightest for Newfoundland and Labrador's ocean industries research? Post-secondary students across Canada and internationally, who are interested in pursuing their studies and conducting leading-edge research in Newfoundland and Labrador, at either Memorial University of Newfoundland or the College of the North Atlantic, are eligible to apply. The awards target graduate and undergraduate students enrolled in ocean industries-relevant programs, including offshore petroleum engineering and geosciences, ocean engineering, fisheries, aquaculture, and related marine science, and other areas that support innovation and the commercialization of ocean technologies in Newfoundland and Labrador.



Opportunities and Challenges Ahead

When looking back at RDC's performance over the past year, it is important to consider the opportunities and challenges that lie ahead as we implement our strategic plan.

Historically, there has been a low level of R&D investment and performance in Newfoundland and Labrador compared to Canada, and the rest of the world. There is also a relatively low level of investment in R&D by the private sector in this province. RDC is starting from the ground up to strengthen the R&D landscape of Newfoundland and Labrador.

RDC acknowledges that the achievement of increasing R&D and future economic impact will be measured by both successes and failures. R&D is a demanding and stimulating endeavour that requires creativity and astute business acumen. While RDC will strive to demonstrate the value of R&D to the province and promote R&D as a key component of the innovation system, challenges do exist. One such challenge is the lack of information available on R&D being conducted in the province. Evidence is needed to assist in tailoring our programs and developing new services for our clients.

Newfoundland and Labrador is also challenged by its smaller, widely dispersed population and distance to markets; these structural issues make it more difficult to develop R&D capacity and the critical mass needed to build R&D. To address these challenges, RDC will focus on development opportunities and areas of competitive advantage.

Over the past year, RDC had the privilege and challenge of responding to the needs of R&D stakeholders. Achieving our goals while building the corporation has been a challenge in itself. Our future endeavours will be influenced by our ability to evolve as an organization and to harness the resources required to implement our programs and seize other opportunities.

Consulting and working collaboratively with business, academia, and government R&D performers continues to be an opportunity to work together to align provincial R&D activities that are responsive to the needs of our stakeholders. The provincial government has placed a high priority on R&D as a key contributor to advancing the province's innovation strategy.

The petroleum industry is expected to make significant expenditures on R&D, education and training over the coming years tied to offshore production. This will create opportunities to enhance Newfoundland and Labrador's R&D capacity in support of oil and gas exploration, development and operations.

Looking ahead, the corporation is focused on growing R&D in key areas that provide a competitive advantage for this province. Strengthened capacity in areas, such as geosciences and Arctic R&D will expand upon the current R&D environment in the province and provide new opportunities for our clients.

Another avenue for increasing R&D in the province is through the support of our highly-qualified people. In the past year, we initiated programs that focused on university and college level students, and looking forward there is the potential to start accelerating interest in and exposure to R&D for younger students.

RDC is committed to growing the R&D capacity of this province, and the corporation will focus on promoting R&D in this province and fostering a society that understands innovation and values it as a key component for strengthening our economy in the long-term.

Other of the Auditor's Remarks

**RESEARCH & DEVELOPMENT CORPORATION
OF NEWFOUNDLAND AND LABRADOR
FINANCIAL STATEMENTS
31 MARCH 2011**



OFFICE OF THE AUDITOR GENERAL
St. John's, Newfoundland and Labrador

AUDITOR'S REPORT

To the Board of Directors
Research & Development Corporation
of Newfoundland and Labrador
St. John's, Newfoundland and Labrador

Report on the Financial Statements

I have audited the accompanying financial statements of the Research & Development Corporation of Newfoundland and Labrador which comprise the statement of financial position as at 31 March 2011, the statement of operations and changes in net assets, and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

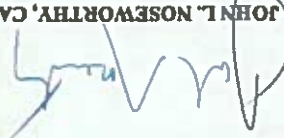
Auditor's Report (cont.)

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Research & Development Corporation of Newfoundland and Labrador as at 31 March 2011, and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

JOHN L. NOSEWORTHY, CA
Auditor General



St. John's, Newfoundland and Labrador
20 June 2011

**RESEARCH & DEVELOPMENT CORPORATION OF
NEWFOUNDLAND AND LABRADOR**
STATEMENT OF FINANCIAL POSITION

31 March	2011	2010
ASSETS		
Current Assets		
Cash	\$ 24,740,983	\$ 688,782
Other receivables	31,039	21,171
Prepaid expenses	-	5,946
Total current assets	24,772,022	715,899
Capital assets, net (Note 5)	355,300	311,468
	\$ 25,127,322	\$ 1,027,367
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 3,439,929	\$ 213,887
Deferred revenue (Note 6)	21,309,475	639,361
Total current liabilities	24,749,404	853,248
Accrued severance	22,878	16,100
Deferred capital contributions (Note 7)	103,233	158,019
Net assets	251,807	-
	\$ 25,127,322	\$ 1,027,367

Commitments (Note 11)

See accompanying notes

Signed on behalf of the Board:



Director



Director

Office of the Auditor General

**RESEARCH & DEVELOPMENT CORPORATION OF
NEWFOUNDLAND AND LABRADOR
STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS**

For the Year Ended 31 March

2010

REVENUE	
(Note 14)	
Government grants (Note 6)	\$ 9,743,500
Investment income	251,807
Amortization of deferred capital contributions (Note 7)	54,786
Total revenue for the period	10,050,093
808,984	
EXPENDITURES	
Program grants	6,360,816
Salaries and benefits	2,172,790
Professional services	433,447
Property	238,568
Office and computer equipment and supplies	162,687
Amortization of capital assets	140,272
Advertising, printing and promotion	95,630
Communications	93,867
Travel	86,034
Director fees	14,175
2,800	
Total expenditures for the period	9,798,286
808,984	
Excess of revenue over expenditures, and increase in net assets for the period	\$ 251,807
-	

See accompanying notes

(Name of the Auditor General)

**RESEARCH & DEVELOPMENT CORPORATION OF
NEWFOUNDLAND AND LABRADOR
STATEMENT OF CASH FLOWS
For the Year Ended 31 March**

2011

2010

(Note 14)

OPERATING ACTIVITIES

Excess of revenue over expenditures for the period	\$ 251,807	\$ -
Add (deduct) items not involving cash		
Amortization of capital assets	140,272	83,950
Amortization of deferred capital contributions	(54,786)	(54,786)
Accrued severance pay	6,778	16,100
Net change in non-cash working capital balances related to operations (Note 13)	<u>23,892,234</u>	<u>826,131</u>
Cash provided by operating activities	<u>24,236,305</u>	<u>871,395</u>

INVESTING ACTIVITIES

Purchase of capital assets	(184,104)	(395,418)
Additions to deferred capital contributions (Note 7)	-	212,805
Cash used in investing activities	<u>(184,104)</u>	<u>(182,613)</u>
Net increase in cash during the period	24,052,201	688,782
Cash, beginning of period	688,782	-
Cash, end of period	<u>\$ 24,740,983</u>	<u>\$ 688,782</u>

See accompanying notes

Office of the Auditor General

**RESEARCH & DEVELOPMENT CORPORATION OF
NEWFOUNDLAND AND LABRADOR
NOTES TO FINANCIAL STATEMENTS
31 March 2011**

2. Summary of significant accounting policies

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles which require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. By their nature these estimates are subject to measurement uncertainty. The effect on the financial statements of changes in such estimates in future periods could be material and would be accounted for in the period the change occurs.

The financial statements, in management's opinion, have been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Basis of presentation

These financial statements include the accounts relating to the operations carried on under the name of the Corporation.

The Corporation has adopted Section 4400 of the *CICA Handbook, Financial Statement Presentation for Not-for-Profit Organizations*. As part of this adoption, the Corporation reviewed recent changes to Section 4400, including the elimination of the requirement to disclose the amount of net assets invested in capital assets separately, and the reporting of revenues and expenditures on a gross basis in the statement of operations, unless not required by other guidance. In addition, the Corporation also considered recent amendments to certain other Sections of the *CICA Handbook* that relate to not-for-profit organizations, including Section 1540, *Cash Flow Statements*, and the creation of the new Section 4470, *Disclosures of Allocated Expenses by Not-for-Profit Organizations*.

Cash

Cash includes cash on deposit only.

Revenue recognition

Government grants revenue is recognized in the period in which related expenditures are incurred. Grants received relating to future period expenditures are deferred and reflected as deferred revenue in the statement of financial position.

Office of the Auditor General

2. Summary of significant accounting policies (cont.)

Capital assets

Capital assets are recorded at cost and amortized on a straight-line basis over their estimated useful lives using the following terms:

Item	Term
Furniture and equipment	5 years
Computer hardware and software	2 years
Network infrastructure	4 years
Enterprise resource package software	3 years

Deferred capital contributions

The Corporation's deferred capital contributions balance is comprised of the capital contributions transferred to the Corporation from the Government of Newfoundland and Labrador prior to 18 December 2009, the date of incorporation. Capital contributions are recorded as deferred contributions and are amortized to income on a straight line basis using the same rates as the amortization expense related to the capital assets.

Accrued severance

Severance is accounted for on an accrual basis and is calculated based upon years of service and current salary levels. The right to be paid severance vests with employees with nine years of continual service, and accordingly no provision has been made in accounts for employees with less than nine years of continual service. As well, no provision has been made for contractual employees. Employees with prior service with the Government of Newfoundland and Labrador or a Crown corporation or agency may be considered for severance provided the previous employer followed the same or equivalent severance policy. Severance is payable when the employee ceases employment with the Corporation provided no severance has been paid by Government or another Crown corporation or agency for the same period.

Pension costs

Employees of the Corporation are covered by the Public Service Pension Plan or the Government Money Purchase Plan administered by the Government of Newfoundland and Labrador, or a self-directed RRSP. Contributions to each plan are required from both the employees and the Corporation. The annual contributions for pensions are recognized in the accounts on a current basis. Total pension expense for the Corporation in the year was \$131,872 (2010 - \$30,835).

**RESEARCH & DEVELOPMENT CORPORATION OF
NEWFOUNDLAND AND LABRADOR
NOTES TO FINANCIAL STATEMENTS
31 March 2011**

2. Summary of significant accounting policies (cont.)

Operating leases

Leases where substantially all the risks and rewards of ownership of the asset are not transferred to the Corporation are classified as operating leases. Operating lease payments are recognized as an expense on a straight-line basis over the related lease term.

Financial instruments

Financial reporting principles require that financial assets and financial liabilities be initially measured at fair value. Subsequent to initial recognition, financial assets and financial liabilities are measured based on their classification: held for trading, loans and receivables, or other financial liabilities. The Corporation has made the following classifications:

- Cash is classified as a "held for trading" asset. This asset is measured at fair value and the gains or losses arising from the remeasurement at the end of each period are recorded in earnings.
- Other receivables are classified as "loans and receivables". They are recorded at cost, which on initial recognition represents their fair value. Subsequent valuations are recorded at amortized cost using the effective interest rate method. For the Corporation, the measured amount generally corresponds to the cost.
- Accounts payable and accrued liabilities are classified as "other financial liabilities". They are initially measured at fair value. Subsequent valuations are recorded at amortized cost using the effective interest rate method. For the Corporation, the measured amount generally corresponds to the cost.

3. Financial statement presentation

Future changes in accounting policies

Assessment of strategic direction of financial reporting standards for not-for-profit organizations

The Accounting Standards Board and the Public Sector Accounting Board are currently working together to assess the strategic direction of financial reporting standards for not-for-profit organizations in Canada. The Corporation will continue to monitor the impact of any proposed changes and the timing of their adoption.

Office of the Auditor General

**RESEARCH & DEVELOPMENT CORPORATION OF
NEWFOUNDLAND AND LABRADOR
NOTES TO FINANCIAL STATEMENTS
31 March 2011**

4. Risk management

The Corporation's management recognizes the importance of managing significant risks and this includes policies, procedures and oversight designed to reduce the risks identified to an appropriate threshold. The Board of Directors is provided with timely and relevant reports on the management of significant risks. Significant risks currently managed by the Corporation include liquidity risk.

Liquidity risk

Liquidity risk is the risk that the Corporation will be unable to meet its contractual obligations and financial liabilities. The Corporation manages liquidity risk by monitoring its cash flows and ensuring that it has sufficient resources available to meet its obligations and liabilities.

5. Capital assets

The Corporation applies the half-year rule in calculating amortization of capital assets acquired during the year.

	2011	2010
	Net book value	Net book value
	\$	\$
	Accumulated amortization	Cost
	\$	\$
Purniture and equipment	\$ 224,604	\$ 66,121
Computer hardware and software	48,756	36,868
Network infrastructure	47,077	23,538
Enterprise resource packages software	259,085	97,695
	\$ 355,300	\$ 311,468
	161,390	136,285
	23,539	35,308
	11,888	16,453
	\$ 123,422	\$ 158,483

(Title of the Auditor General)

**RESEARCH & DEVELOPMENT CORPORATION OF
NEWFOUNDLAND AND LABRADOR
NOTES TO FINANCIAL STATEMENTS
31 March 2011**

6. Deferred revenue

Deferred revenue at 31 March 2011 consists of grants received from the Province to be used for the payment of research and development programs in future periods.

	2011	2010
Balance, beginning of period	\$ 639,361	\$ -
Grants received during the period	25,156,800	1,393,559
IRIF program transfer (Note 8)	5,107,090	-
Other program transfers	149,724	-
Less: grants recognized in income during the period	(9,743,500)	(754,198)
	\$ 21,309,475	\$ 639,361

7. Deferred capital contributions

	2011	2010
Balance, beginning of period	\$ 158,019	\$ -
Contributions, during the year	-	212,805
Less: amount amortized to revenue	(54,786)	(54,786)
	\$ 103,233	\$ 158,019

8. Industrial Research and Innovation Fund (IRIF)

Prior to 1 April 2009, funding for the IRIF program resided with the Department of Education while responsibility for client files and decision making resided with the Department of Innovation, Trade and Rural Development (INTRD). Funding was provided to Memorial University of Newfoundland (Memorial) through lump sum disbursements to be held on account by Memorial. Memorial placed the funds in an interest bearing account and disbursed funds to projects approved by INTRD.

Through the 2009 budget process it was decided that the IRIF program aligned best with the mandate of the Research and Development Council (the Council). Effective 1 April 2009 the program was transferred to the Council (which was renamed the Corporation per Section 3 of the *Act*) with accountability and responsibility for the program on a go forward basis. On 22 March 2010 a formal request was issued to Memorial to forward the IRIF account balance to the Corporation. This transfer was completed on 27 May 2010 in the amount of \$5,107,090 and as a result this amount related to the IRIF program has been recorded in these financial statements.

Office of the Auditor General

**RESEARCH & DEVELOPMENT CORPORATION OF
NEWFOUNDLAND AND LABRADOR
NOTES TO FINANCIAL STATEMENTS
31 March 2011**

9. Related party transactions

These financial statements include transactions with related parties. The Corporation is related, as a result of common ownership, to all Crown corporations and agencies of the Province.

During the year, the Corporation had the following related party transactions:

- Program grants expense to related parties of \$5,354,612 (\$2010 - \$0).
- Purchased supplies and services from related parties for \$86,820 (2010 - \$7,002).
- Receipt of a transfer in the amount of \$5,107,090 from Memorial University of Newfoundland. This transfer represented the balance of funds on hand related to the IRLF which is now administered by the Corporation (Note 8).

10. Economic dependence

As a result of the Corporation's reliance on funding from the Government of Newfoundland and Labrador, the Corporation's ability to continue viable operations is dependent upon the decisions of the Province.

11. Commitments

The Corporation has outstanding commitments under its various programs in respect of approved but not yet disbursed funds in the amount of \$32,233,042. Approximate payment of the commitments for the next five years is as follows:

2012	\$19,621,050
2013	\$ 9,736,072
2014	\$ 1,561,006
2015	\$ 832,680
2016	\$ 482,234

Additionally, the Corporation has entered into various contracts for the rental of office space and joint cost shared agreements totalling approximately \$265,000. The Corporation expects to make these payments in 2012 in addition to the program commitments noted above.

**RESEARCH & DEVELOPMENT CORPORATION OF
NEWFOUNDLAND AND LABRADOR
NOTES TO FINANCIAL STATEMENTS
31 March 2011**

12. Credit facilities

Subject to the prior approval of the Lieutenant-Governor in Council and the Board, the Corporation may borrow money for purposes related to the attainment of its objectives as set out in the *Act*. As at 31 March 2011, the Corporation has available a revolving credit facility of up to \$1,000,000 bearing interest at prime, a letter of credit of up to \$50,000 bearing interest at 1%, and VISA business card(s) with an aggregate limit of \$50,000. As at 31 March 2011, the credit facility, letter of credit, and the VISA business card(s) are inactive.

13. Non-cash working capital balance

The net change in non-cash working capital balances related to operations is comprised of the following:

	2011	2010
Increase in other receivables	\$ (9,868)	\$ (21,171)
Decrease (increase) in prepaid expenses	5,946	(5,946)
Increase in accounts payable and accrued liabilities	3,226,042	213,887
Increase in deferred revenue	20,670,114	639,361
Net change in non-cash working capital balances related to operations for the period	\$ 23,892,234	\$ 826,131

14. Comparative figures

The comparative figures presented in these financial statements represent the Corporation's transactions from the date of incorporation, 18 December 2009 to 31 March 2010. Certain of the 2010 comparative figures have been reclassified to conform to the financial presentation adopted in 2011.

Office of the Auditor General