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INTERNATIONAL DEVELOPMENT RESEARCH CENTRE

Quarterly Financial Report

For the period ending

30 June 2012

Canada

Ideas. Innovation. Impact.

A key part of Canada's aid program since 1970, the International Development Research Centre (IDRC) supports research in developing countries to promote growth and development. IDRC also encourages sharing this knowledge with policymakers, other researchers, and communities around the world. The result is innovative, lasting local solutions that aim to bring choice and change to those who need it most.

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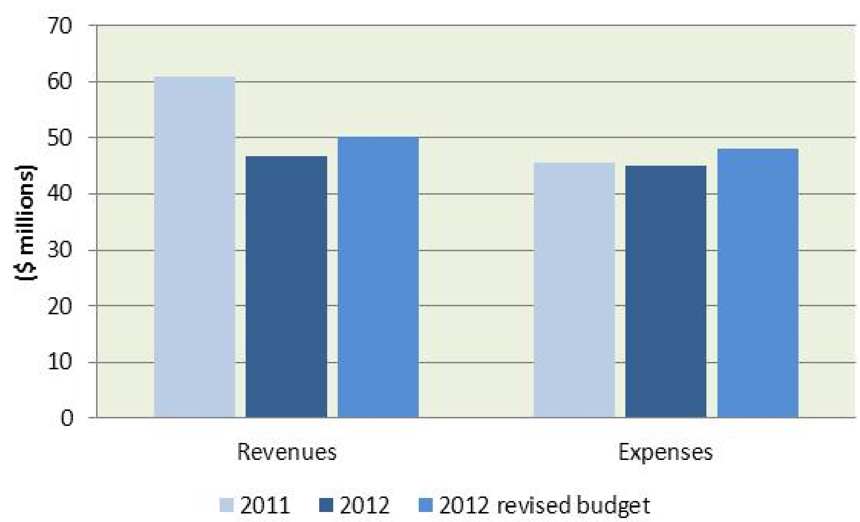
Introduction

This Management's Discussion and Analysis (MD&A) provides a narrative outlining the financial results and corporate updates of the International Development Research Centre (IDRC, the Centre) for the three months ended 30 June 2012. This report was prepared as required under section 131.1 of the *Financial Administration Act*. It is also in compliance with the reporting standard issued by the Comptroller General of Canada (Treasury Board Secretariat). IDRC recommends that this report be read in conjunction with the unaudited financial statements (see page 9). Disclosures and information in IDRC's *2011-2012 Annual Report* apply to the current quarter unless otherwise updated below.

Performance

Financial highlights

(for the three months ended 30 June)



Consolidated overview

Revenues

TABLE 1: REVENUES

($000)	Revised budget 2012-2013 [a]	Three months Revised budget	Actual 2012	Actual 2011	Year-over-year % change
Total revenues	**213 091**	**50 273**	**46 775**	**60 777**	**-23.0%**
Parliamentary appropriation	167 474	39 841	39 834	52 273	-23.8%
Donor contributions					
Funding for development research programming	39 837	9 084	5 918	7 372	-19.7%
Recovery of administrative costs	3 939	891	514	784	-34.4%
Investment income	1 472	368	354	222	59.5%
Other income	369	89	155	126	23.0%

[a] Relative to the 2012-2013 budget disclosed in the *2011-2012 Annual Report*.

TABLE 2: PARLIAMENTARY APPROPRIATION

Timing of Parliamentary Appropriation	Three months Actual 2012	Actual 2011
Main estimates	39 555	51 843
Supplementary estimates	-	-
Appropriation received	**39 555**	**51 843**
Appropriation amortized	279	430
Appropriation recognized	**39 834**	**52 273**
Appropriation receivable	-	-

The Centre derives funding from five sources: Parliamentary appropriation, donor contributions, recovery of administrative costs, investment income and other income.

During the first quarter of fiscal year 2012-2013, the **Parliamentary appropriation** decreased by 23.8% to $39.8 million from $52.3 million in the same period in 2011-2012. The decrease relates primarily to the scheduling of the portion of the appropriation intended for the Development Innovation Fund (DIF). That decrease was slightly offset by the additional amount received in 2012 for the International Research Initiative on Adaptation to Climate Change (IRIACC).

The majority of operating expenses are funded by a variety of revenue sources, including the Parliamentary appropriation. It is therefore impractical to assign expenses to specific revenue sources. For this reason IDRC cannot provide a reconciliation of the Parliamentary appropriation received and receivable to appropriation used.

In this quarter, the **donor contribution funding for development research programming** decreased by 19.7% to $5.9 million from $7.4 million for the same period in 2011-2012. The decrease compared to the same period in 2011-2012 reflects the relatively lower intensity of activity of a new large initiative (still in ramp-up mode) that replaced one that was active a year ago and that was completed on 31 March 2012.

Donor contribution funds, received in advance, are recognized as revenue when the related expenses are incurred. The variance between the revised year-to-date budget and the actual for the three months ended 30 June 2012 is due primarily to delayed spending on two large co-funded programs. The variance in the **recovery of administrative costs** is proportional to the variance in donor contribution revenue being recognized.

The **investment income** is essentially as budgeted. Its higher level compared to the same period in 2011 is primarily due to the higher amount available to invest. The average return on the bank account and investments was 1.19% compared to the average 90-day Treasury Bill yield of 0.90% for the first three months of this fiscal year.

Expenses

Expenses are tracked under two main headings: development research programming and corporate and administrative services.

TABLE 3: EXPENSES

($000)	Revised budget 2012-2013[a]	Three months			Year-over-year % change
		Revised budget	Actual 2012	Actual 2011	
Total expenses	**282 030**	**47 958**	**45 079**	**45 523**	**-1.0%**
Development research programming					
Research projects					
Funded by Parliamentary appropriation	176 925	21 925	22 667	22 039	2.8%
Funded by donor contributions	35 815	8 001	5 101	6 051	-15.7%
	212 740	29 926	27 768	28 090	-1.1%
Capacity building					
Funded by Parliamentary appropriation	41 785	10 719	10 718	10 452	2.5%
Funded by donor contributions	4 022	1 083	817	1 320	-38.1%
	45 807	11 802	11 535	11 772	-2.0%
	258 547	**41 728**	**39 303**	**39 862**	**-1.4%**
Corporate and administrative services	**23 483**	**6 230**	**5 776**	**5 661**	**2.0%**

[a] Relative to the 2012-2013 budget disclosed in the *2011-2012 Annual Report*.

The research project expenses **funded by the Parliamentary appropriation** are slightly higher than targeted for the quarter and remained stable compared to the same period last year. The variance is within normally expected fluctuations given the factors affecting budgeting. Actual expenses related to research projects **funded by donor contributions** are $3 million below the target during the quarter due to delayed payments on two large programs. Donor-funded project expenses were 15.7 % lower than expenses incurred during the same quarter in 2011, with the most significant year-over-year decrease attributable to the completion of the Climate Change Adaptation in Africa initiative.

The year-over-year increase as at 30 June 2012 in the **capacity-building portion of the development research programming expenses funded by Parliamentary appropriation** was expected as the budget figure shows. The minor increase reflects a small variation in the mix of program expenses. **Contributions from donors for capacity building** for the three months ended 30 June 2012 decreased by 38.1% compared to the previous year, mainly due to timing in on-going activities and to the completion of several agreements that are no longer active in 2012. The small variance to budget reflects the timing of those contributions.

The small increase in **corporate and administrative services** in the first quarter ended 30 June 2012 compared to the same period in 2011 is due to a practically similar increase in the cost of office accommodations.

Financial position

TABLE 4: ASSETS AND LIABILITIES

($000)	June 2012	March 2012	% change
Total assets	**188 414**	**156 106**	**20.7%**
Current	176 172	133 584	31.9%
Non-current	12 242	22 522	-45.6%
Total liabilities	**82 885**	**52 272**	**58.6%**
Current	76 623	45 978	66.7%
Non-current	6 262	6 294	-0.5%

Total **assets** at 30 June 2012 increased by 20.7% compared to 31 March 2012 (from $156.1 million to $188.4 million). The change is due to advances received and receivables. **Liabilities** increased by $30.6 million (or 58.6%) from 31 March 2012, largely due to the current deferred revenue liability related to two large co-funded programs.

TABLE 5: EQUITY

($000)	Revised budget 2012-2013	Three months			Year-over-year % change
		Revised budget[a]	Actual 2012	Actual 2011	
Total equity	**34 895**	**106 149**	**105 529**	**73 281**	**44.0%**
Unrestricted	2 222	14 499	13 830	20 706	-33.2%
Internally restricted	14 831	73 808	73 857	34 841	112.0%
Reserved	17 842	17 842	17 842	17 734	0.6%

[a] Reflects revenue and expenses forecasts revised from the disclosure of the *2011-2012 Annual Report*.

The 33.2% year-over-year decrease in actual **unrestricted** equity is in line with budget expectations. The budget variance results primarily from expenses relating to the Government of Canada's deficit reduction action plan. The year-over-year increase from $34.8 million to $73.9 million in **internally restricted** equity relates to the Development Innovation Fund, the African Adaptation Research Centres and the Adaptation Measures to Climate Change programs, as explained in the annual report. The **reserved** equity remains stable.

Cash flows

TABLE 6: CASH FLOWS

($000)	For the quarter ended 30 June		Year-over-year change
	Actual 2012	Actual 2011	
Net results of operations	1 695	15 254	(13 559)
Non-cash items	37 316	(1 571)	38 887
Cash flows from operating activities	**39 011**	**13 683**	**25 328**
Purchases of investments	(50 622)	(66 875)	16 253
Maturity of investments	33 808	54 351	(20 543)
Other	(123)	(256)	133
Cash flows used in investing activities	**(16 937)**	**(12 780)**	**(4 157)**
Increase in cash and cash equivalents	**22 074**	**903**	**21 171**
Cash and cash equivalents, beginning of period	**9 494**	**14 235**	**(4 741)**
Cash and cash equivalents, end of period	**31 568**	**15 138**	**16 430**

For the three months ended 30 June 2012, the **net results of operations** contributed less to cash flows by $13.6 million (a drop of 88.9%) than the first quarter net results of 30 June 2011 ($1.7 million down from $15.3 million). The decrease, compared to 2011-2012, is the result of better overall synchronization between revenues and expenses. The **non-cash items** change is due largely to fluctuations in the receivables related to donor contributions and the associated deferred revenue.

The cash flows consumed by **investing activities** as at 30 June 2012 show a year-over-year decrease of $4.2 million, which means more funds are invested. Specifically, investment purchases for the first three months of this fiscal year was $50.6 million (compared to $66.9 million in June 2011) and investment maturities were $33.8 million (compared to $54.4 million in June 2011).

Corporate developments

Government of Canada deficit reduction action plan
The implementation of the decisions related to the Government's deficit reduction action plan is proceeding according to plan. The Centre does not anticipate any delays with regards to the closing of the Singapore and Dakar offices.

As indicated in the annual report (especially on page 38 of the Management Discussion and Analysis section) and in note 11 of the financial statements, the expense reduction plan put in place by management continues to roll out swiftly. At 30 June 2012, management had eliminated a cumulative total of 79.6 positions (since the end of March 2012), involving the layoff of 65 employees.

With so many potential distractions induced by a workforce adjustment program that affects nearly one in six employees, management paid particular attention to focusing the work of the employees who remain. These efforts have borne fruits and are well reflected in the financial results that meet, or exceed, the established budget targets.

The *Budget Implementation Act* (Bill C-38) received Royal Assent on 29 June 2012. It amended the *International Development Research Act* to reduce the maximum number of governors of the Centre to 14 from the current 18.

Risk management

There has not been any material change in the risks to performance reported in "Management's Discussion and Analysis" in the *2011-2012 Annual Report*.

Outlook

As a number of negotiations are currently underway, there is a possibility that several new donor contribution agreements may be signed in the next quarter or two which would bring the total of new contribution agreement funding for the year above the amount forecasted.

The remaining aspects of the context in which IDRC operates remain the same as they were at the time of the *2011-2012 Annual Report*.

Unaudited financial statements

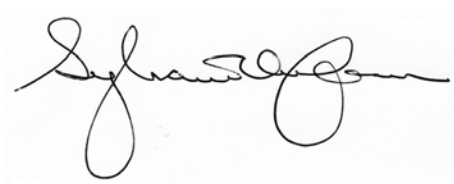
Statement of Management Responsibility

Management is responsible for the preparation and fair presentation of these quarterly financial statements, which, we confirm, have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board. This interim financial report was therefore also prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting.*

Management has implemented internal controls that aim to keep quarterly financial statements free from material misstatements. Management is also responsible for ensuring that all other information in this quarterly financial report for the period ending 30 June 2012 is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the Centre, as at the date of, and for the periods presented in, the quarterly financial statements.

David M. Malone
President



Sylvain Dufour, ing., CPA, CMA
Vice-President, Resources, and
Chief Financial Officer

Ottawa, Canada
13 August 2012

Statement of Financial Position

as at

(in thousands of Canadian dollars)

(unaudited)

	30 June 2012	31 March 2012
Assets		
Current		
Cash and cash equivalents	31 568	9 494
Investments	118 595	92 199
Accounts receivable	23 905	30 155
Prepaid expenses	2 104	1 736
	176 172	133 584
Non-current		
Investments	1 168	11 157
Property and equipment	8 054	8 359
Intangible assets	3 020	3 006
	188 414	**156 106**
Liabilities		
Current		
Accounts payable and accrued liabilities	15 024	19 237
Provision for restructuring (Note 11)	4 796	5 047
Deferred revenue	56 803	21 694
	76 623	45 978
Non-current		
Deferred revenue	1 870	2 011
Employee benefits	4 392	4 283
	82 885	**52 272**
Equity		
Unrestricted	13 830	10 996
Internally restricted	73 857	74 996
Reserved	17 842	17 842
	105 529	**103 834**
	188 414	**156 106**

Commitments (Note 9)

Contingencies (Note 10)

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

Statement of Comprehensive Income

for the three months ended 30 June *(unaudited)*
(in thousands of Canadian dollars)

	2012	2011
Revenues		
Donor contributions		
Funding for development research programming	5 918	7 372
Recovery of administrative costs	514	784
Investment income	354	222
Other income	154	126
	6 940	8 504
Expenses		
Development research programming		
Research projects		
Funded by Parliamentary appropriation	22 667	22 039
Funded by donor contributions	5 101	6 051
Capacity building		
Funded by Parliamentary appropriation	8 632	8 315
Funded by donor contributions	817	1 320
Research complements	2 086	2 137
	39 303	39 862
Corporate and administrative services		
Corporate services	4 410	4 313
Regional office administration	1 366	1 348
	5 776	5 661
Total expenses	**45 079**	**45 523**
Cost of operations before Parliamentary appropriation	(38 139)	(37 019)
Parliamentary appropriation	39 834	52 273
Restructuring	—	—
Net results of operations	**1 695**	**15 254**

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

Statement of Changes in Equity

for the three months ended 30 June *(unaudited)*
(in thousands of Canadian dollars)

	2012	2011
Unrestricted equity		
Beginning of period	10 996	16 044
Net results of operations	1 695	15 254
Transfers from (to) restricted equity	1 139	(10 592)
Balance end of period	13 830	20 706
Internally restricted equity		
Beginning of period	74 996	24 249
Expenditures incurred	(1 142)	(658)
Additions	3	11 250
Balance end of period	73 857	34 841
Reserved equity		
Beginning of period	17 842	17 734
Financial planning reserve increase (decrease)	—	—
Balance end of period	17 842	17 734
Equity, end of period	**105 529**	**73 281**

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

Statement of Cash Flows

for the three months ended 30 June *(unaudited)*
(in thousands of Canadian dollars)

	2012	2011
Operating activities		
Net results of operations	1 695	15 254
Items not affecting cash		
Depreciation of property and equipment	314	365
Amortization of intangible assets	100	98
Amortization of bond premium	408	38
Gain on disposal of property and equipment	(1)	(23)
Employee benefits	109	309
Deferred revenue – non-current	(141)	(600)
	789	187
Change in non-cash operating items		
Accounts receivable	6 250	(12 681)
Prepaid expenses	(368)	(222)
Accounts payable and accrued liabilities	(4 464)	(3 757)
Deferred revenue – current	35 109	14 902
	36 527	(1 758)
Cash flows from operating activities	**39 011**	**13 683**
Investing activities		
Purchase of investments	(50 622)	(66 875)
Maturity of investments	33 808	54 351
Acquisition of property and equipment	(10)	(127)
Acquisition of intangible assets	(114)	(161)
Proceeds from disposition of property and equipment	1	32
Cash flows used in investing activities	**(16 937)**	**(12 780)**
Increase in cash and cash equivalents	**22 074**	**903**
Cash and cash equivalents, beginning of period	**9 494**	**14 235**
Cash and cash equivalents, end of period	**31 568**	**15 138**
Composition of cash and cash equivalents		
Cash	24 070	5 140
Cash equivalents	7 498	9 998
	31 568	**15 138**

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

Notes to the Financial Statements

For the period ended 30 June 2012 *(unaudited)*
(in thousands of Canadian dollars unless otherwise stated)

1. Corporate information

The International Development Research Centre (the Centre), a Canadian Crown corporation without share capital, was established in 1970 by the Parliament of Canada through the *International Development Research Centre Act*. The Centre is a registered charity and is exempt under section 149 of the *Income Tax Act* from the payment of income tax.

The Centre's head office is located at 150 Kent Street, Ottawa, Canada.

2. Authority and objective

The Centre is funded primarily through an annual appropriation received from the Parliament of Canada. In accordance with section 85(1) of the *Financial Administration Act*, the Centre is exempt from Divisions I to IV of Part X of the Act, except for sections 131 to 148 of Division III.

The objective of the Centre is to initiate, encourage, support, and conduct research into the problems of the developing regions of the world and into the means for applying and adapting scientific, technical, and other knowledge to the economic and social advancement of those regions.

3. Basis of preparation

The financial statements are presented in Canadian dollars and all values are rounded to the nearest thousand ($000) except when otherwise indicated.

Statement of compliance

These financial statements, for the three months ended 30 June 2012, are prepared in accordance with IAS 34 *Interim financial reporting* and all other International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Centre's annual financial statements as at 31 March 2012.

4. Summary of significant accounting policies

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Centre's annual financial statements as at 31 March 2012.

5. Recent accounting pronouncements

The International Accounting Standards Board has a number of projects underway, some of which will affect standards relevant to the Centre. The Centre is closely monitoring the progress of these projects. Revisions and additions of the following standards could have a future impact on the financial statements and may require revisiting the Centre's conclusions. Except as indicated, the standards are effective for annual periods beginning on or after 1 January 2013:

- IAS 1 – *Presentation of financial statements* – amendments to revise the way other comprehensive income is presented. Effective for annual periods beginning on or after 1 July 2012.

- IAS 19 – *Employee benefits* – the standard has been amended to remove the option to use the corridor method to defer gains and losses; requires that the impact of revaluing pension assets and liabilities be recorded in other comprehensive income; and provides enhanced disclosure requirements for defined benefits plans.

- IFRS 13 – *Fair value measurement* – provides a consistent definition of fair value. guidance on how it should be measured, and other disclosure requirements for use across all IFRSs.

6. Seasonality of operations

The Centre's operations consist of funding research projects in the developing regions of the world. It receives most of its funding from the Parliament of Canada. Parliamentary revenue is recognized when it is received, whereas donor contributions are recognized when spent for their intended purpose. Research project expenditures are driven by several different cycles (academic, climatic, and agricultural) and tend not to be evenly distributed during the year.

7. Property and equipment

During the three months ended 30 June 2012, the Centre acquired property and equipment worth $10 (June 2011: $127).

Assets with a net book value of $228 were disposed of by the Centre during the three months ended 30 June 2012 (June 2011: $139), resulting in a net gain on disposal of $1 (June 2011: $23).

The total amount of depreciation recorded during the three months ended 30 June 2012 was $314 (June 2011: $365).

8. Intangible assets

During the three months ended 30 June 2012, the Centre acquired intangible assets worth $114 (June 2011: $161).

No assets were disposed of by the Centre during the three months ended 30 June 2012 (June 2010: nil).

(in thousands of Canadian dollars unless otherwise stated)

The total amount of amortization recorded during the three months ended 30 June 2012 was $100 (June 2011: $98).

9. Commitments

a. Program-related

The Centre is committed to making payments up to $444.9 million (March 2012: $454.0 million) during the next five years, subject to funds being provided by Parliament or donors and subject to compliance by recipients with the terms and conditions of grant agreements. Of this amount, $352.5 million (March 2012: $359.7 million) is expected to be covered by funding from future Parliamentary appropriations and the balance of $92.4 million (March 2012: $94.3 million) by funding from donor contribution agreements.

b. Operating leases

The Centre has entered into various contractual commitments for leases of office premises in Canada and abroad and for staff accommodation in various countries. The lease agreements expire at different dates up to 2022. Future payments related to these contractual commitments as at 30 June 2012 are as follows:

	June 2012
Within one year	5 386
After one year, but not more than five	29 670
More than five years	46 084
Total future payments	**81 140**

10. Contingencies

Various claims have been asserted or instituted against the Centre. Litigation is subject to many uncertainties and the outcome of individual matters is not predictable. Based on the advice of legal counsel, management is of the opinion that these claims are unlikely to materialize.

11. Provision for restructuring

The Centre was part of the Government-wide review of all federal expenditures aimed at reducing the federal budget deficit and improving operational efficiencies. The Centre's annual Parliamentary appropriation revenue will be reduced by just under $23.0 million progressively over the next three years as a result of this announcement. The reduction represents just over 11% of the Centre's Parliamentary appropriation that was included in the Government's review ($207.4 million). On 30 March 2012, the Centre announced its restructuring strategy. The resulting changes include:

(in thousands of Canadian dollars unless otherwise stated)

- reducing the size of its Board of Governors
- consolidating its Asian presence into one office in New Delhi
- consolidating its sub-Saharan Africa presence into the Nairobi office
- ceasing activities in the field of social innovation, the principal component of which is ending the *Innovation for Inclusive Development* program
- a number of administrative process improvements, office space and personnel reductions.

At the conclusion of this process, the Centre will have four regional offices (Cairo, Montevideo, Nairobi, and New Delhi) along with a head office in Ottawa.

A provision of $5.2 million for restructuring was established when the restructuring initiative was announced. The Centre is expected to complete the restructuring process during the 2012-2013 fiscal year.

	30 June 2012	**31 March 2012**
Beginning of year	5 047	—
Additions	—	5 186
Disbursements	(251)	(139)
Balance end of period	4 796	5 047

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