

CIPO's Mission

CIPO's mission is to accelerate Canada's economic development by:

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fostering the use of intellectual property systems and the exploitation of intellectual property information

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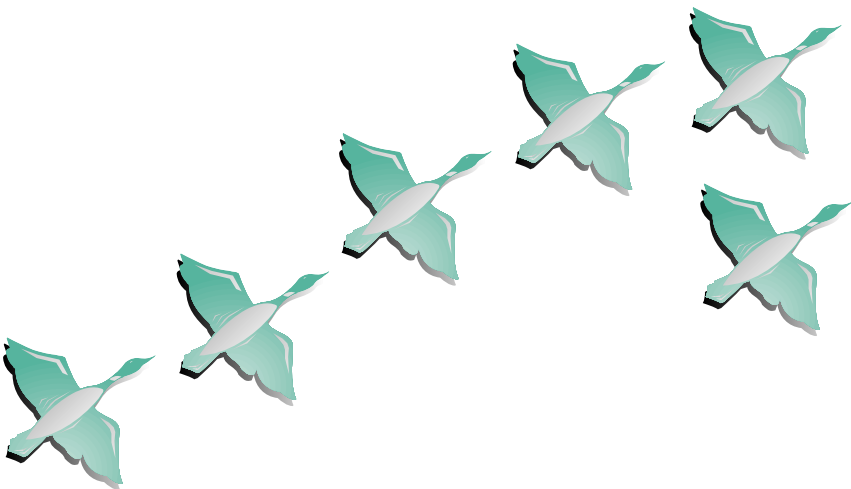
encouraging invention, innovation and creativity in Canada

•

administering the intellectual property systems in Canada (patents, trade-marks, copyrights, industrial designs and integrated circuit topographies)

•

promoting Canada's international intellectual property interests



Commitments Kept

As the new Commissioner of Patents, Registrar of Trade-marks and Chief Executive Officer, effective September 1, 1996, I am pleased to be able to describe the Canadian Intellectual Property Office (CIPO) of Industry Canada as an organization that keeps its commitments.

In January 1996, CIPO published and launched client service standards that define service delivery and turnaround times. Our standards include measuring tools against which we report on a regular basis. Through analysis and consultation with clients, we deliver client service results that are truly needed—not simply that we think are needed. In 1995-96, the turnaround times for our services were shortened considerably and the quality of service improved.

CIPO staff must be credited for this success. Everyone has taken our new client service focus to heart. As a result, we have an organization that believes in setting, meeting and being accountable for client service standards.

Our information dissemination efforts have been greatly assisted by new electronic technology. CIPO is continuing in its venture to automate its product lines, and is on track with TechSource and INTREPID II. We are also working on an imaging system for industrial designs called CANDIS (Canadian Design Imaging System). Clients are now able to order documents, certified and other, by credit card over the telephone. Our invaluable partnerships with organizations across the country, in the public and private sectors, have helped us greatly in ensuring that our information reaches our target audiences.

CIPO's participation in the international arena, and the endorsement of multilateral intellectual property agreements, signal its recognition of the growing link between intellectual property and trade and of the crucial role intellectual property can play in developing Canada's economy in terms of international competition. The Asia Pacific Economic Cooperation (APEC) meetings resulted in the development of an action plan with a significant intellectual property component. A number of targets have been set, and Japan currently has the lead on the action plan. This is in addition to the efforts underway to establish a similar working group in the context of the Free Trade Area of the Americas (FTAA).

In short, the year's work demonstrates that the fundamentals are in place and CIPO is in a good position to take on its next set of tasks.

We must now look toward building an intellectual property culture in Canada. CIPO has an important role to play in ensuring that the growing importance of intellectual property, both internationally and domestically, is recognized and factored into Industry Canada's efforts to implement its jobs and growth agenda. In this regard, CIPO must continue to raise awareness of the benefits of protecting intellectual property. CIPO also has a huge bank of information which can give the business community a strategic advantage.

Moreover, we have to help businesses use this information, and their intellectual property, to compete internationally. Our marketing and information initiatives, supported by solid service from our product lines, will be key to promoting the value of intellectual property in Canada. In addition, four market research studies have been undertaken to enable us to identify our clients' needs and provide appropriate products and services.

To be successful, though, these efforts must be driven not by CIPO itself, but by its clients. The challenge we face is to listen to our clients and respond appropriately and promptly to their needs. Together, we can confirm and strengthen Canada's place in the global economy.



Sheila Batchelor
Commissioner of Patents,
Registrar of Trade-marks and
Chief Executive Officer



The Chief Executive Officer of the Canadian Intellectual Property Office reports to the Deputy Minister and Minister of Industry through the Assistant Deputy Minister, Operations Sector, Industry Canada.

The mission of the Operations Sector of Industry Canada is to foster the growth of a dynamic and innovative private sector in all regions of Canada and the confidence of Canadians in a fair and efficient marketplace. Among other things, the Operations Sector is comprised of several of Industry Canada's responsibilities to regulate and oversee the maintenance of a fair and efficient Canadian marketplace. To accomplish this, the Operations Sector administers a wide range of marketplace services legislation including laws related to intellectual property, bankruptcy, corporate registration, and legal metrology.

Within Industry Canada, the Operations Sector contributes directly to the Department's overall objective of assisting Canadian businesses and the Canadian economy to become more competitive in a rapidly evolving, knowledge-based global economy.

CIPO's business comprises the administration of Canada's intellectual property laws and the dissemination of the intellectual property information to further Canadian innovation and economic development. CIPO is a Special Operating Agency (SOA) financed by a revolving fund based entirely on client fees for Canadian intellectual property services.

As an SOA, the organization is permitted management and administrative flexibilities in return for the achievement of specific levels of performance in the quality and delivery of intellectual property services.

CIPO's first three-year business plan, published in 1993, set out three key objectives for the agency:

- to improve efficiency and effectiveness in both product line operations and information dissemination activities;
- to take advantage of the global harmonization of intellectual property to expand the information base and services available; and
- to achieve financial break-even for the period 1994-95 to 1998-99, both for the agency overall and for each product line.

This year finds CIPO well on its way to meeting these objectives: operations are being streamlined, and new technology is making the dissemination of information faster and more accessible than ever before; CIPO is on track to achieve the first of its commitments to break-even over successive five-year periods; and the organization is participating in several international fora to ensure Canadians benefit from employing global intellectual property systems.

As an integral part of Industry Canada, CIPO is contributing, through the intellectual property system, to the development of an innovative, knowledge-based Canadian economy and, ultimately, to jobs and economic growth for Canadians.

Information can be a company's most important asset. New ideas, not a warehouse full of inventory or a prime real estate location, are often what make a business successful.

In fact, the value of intellectual property—in the form of patents, trade-marks, industrial designs, copyrights and integrated circuit topographies—to modern companies whose products and services crisscross the globe is growing enormously. As an example, the President of the Coca Cola Company once said that even if all the company's tangible assets such as buildings, the fleet and equipment were lost, it would experience no difficulty in resurrecting and restoring its business to its former position as long as it was left with the "COCA COLA" trade-mark.¹

Intellectual property protection provides individual companies—and the national economies they support—with the edge they need to compete in today's global economy. Intellectual property rights, which are granted by governments, offer owners the exclusive right to exploit or license their creations without fear that competitors will market their protected designs. This helps them to create markets, to open access to and win markets, and to maintain markets.

In Canada, information disclosed for the purposes of obtaining intellectual property rights is opened to the public. Data collected from patent applications can be inspected by individuals and business people looking for a strategic advantage or a technological solution.

This process is a valuable asset to creators, producers and individuals who understand its potential: it incr





Strategic Information

For the past 100 years, CIPO has been gathering detailed information on millions of inventions, processes and designs in all fields of technology from all over the world.

In fact, a great deal of leading-edge technical information is available only through CIPO, and in more detail than in trade publications. These data offer intelligence on sector developments, competitors' activities or strategic actions. Business may utilize the data to take advantage of the latest technical developments. This information enables creators to solve technical problems or learn from the experience of others.

In Canada, nearly 90 per cent of patent applications come to CIPO from foreign companies. Canadian entrepreneurs who study the information in these applications can position themselves to form partnerships and strategic alliances with other firms, or position their product effectively for their target market.

Searching patent information can save a company from spending millions of dollars on developing a technology that already is owned by somebody else, or is in the public domain. They can find out when patents expire and inventions enter the public domain, or if patent protection has lapsed.

Information has been recognized as a product line, with plans for the effective dissemination of technological data to assist in the creation of more Canadian businesses and jobs. To this end, patent data have been supplied in Insight, an electronic information tool of

Industry Canada designed to help Canadian industry make strategic business decisions. Patent data have also been included as part of the Canadian Environmental Solutions, a multimedia information tool, an Industry Canada initiative to build a major Canadian global presence from the early successes of the environmental sector. Patent application data from 1989 onwards have been supplied to libraries for public access under the Depository Services Program.

Clients' strategic needs

In 1995-96, CIPO set out to better understand the needs and perceptions of its clients in order to develop marketable, relevant intellectual property services and products. Four market studies focused on:

- the market for intellectual property information products and services that provide strategic information;
- the possibility of joining forces with some departments and agencies that serve small- and medium-sized businesses;
- identifying the financial sector's interest in intellectual property products, especially in assisting them in dealing with clients and the research and development sector; and
- the perceptions and expectations of intermediaries and "allies" that deal with small- and medium-sized enterprises with regard to intellectual property.

The research found that many firms do not believe that filing for intellectual property protection in Canada helps them compete internationally. However, they would be interested in receiving strategic

information from CIPO, especially if that information was available with examiners' advice and expertise. As part of its work in 1996-97, CIPO will begin to develop products and services to respond to these identified client needs.

Our studies also found that financial institutions are beginning to recognize that they could consider the value of a firm's intellectual property in the assessment of loan applications, particularly those from firms that make up the growing number of knowledge-based industries. The financial institutions expressed interest in a technological and commercial intellectual property assessment tool.

Finally, the studies recommended building on CIPO's partnerships with intermediaries and brokers who provide CIPO's intellectual property information directly to end users. This would help to raise awareness among small- and medium-sized businesses of the value of intellectual property.

The results of these studies are influencing the development of CIPO's programs and services. They have strengthened the efforts of our network of intermediaries and our joint liaison committees to exchange information and to collect feedback from clients on their needs and on CIPO's programs.

The Management Advisory Board, which held its first meeting in May 1995, has added a new perspective. Private sector and university representatives from across Canada provide advice on innovative agency management practices and monitor how these approaches are applied.

Getting the word out

CIPO has effected several initiatives over the past year to ensure that strategic information is reaching the people who can use it.

We are implementing a system that eventually will allow clients to conduct patent or trade-mark searches without having to come to the public search rooms in Hull. Information will be available through work stations in Vancouver, Toronto, Montreal and Halifax.

Industry Canada's five regional offices and the Canada Business Service Centres in every province now provide general information to the public about CIPO.

The Internet is another valuable communication vehicle that provides timely and accurate information and encourages feedback from clients. In 1995-96, CIPO set up a site on the World Wide Web. Located at <http://cip0.gc.ca>, CIPO's Web site includes useful information about its product lines, services and legislative changes. Its five intellectual property guides are available for consultation or downloading, as are interactive tools that explain intellectual property in an enjoyable way. A strategy for the future growth of the CIPO Web site will be completed next year. The site is linked to Strategis, Industry Canada's Web site, and to other intellectual property offices around the world. In the fall of 1996, CIPO will be testing a searchable patent database on Strategis.

CIPO is seeking more client contact and comments through its new 1-900 information line. The numbers are 1-900-565-CIPO for English information and 1-900-565-OPIC for French

information. This service was rolled out across the country at the end of the fiscal year.

Customer Service

In 1995, CIPO began an organization-wide initiative to put clients at the heart of all business planning and operational activities.

We began by examining how closely we met the criteria for "excellent organizations" through a partial evaluation using Malcolm Baldrige criteria. This review of CIPO's strengths and weaknesses determined whether we could reach our objectives for service and program delivery. It also gauged our ability to function as a unit, rather than as a collection of individual product lines.



The assessment found that SOA status has made managers more accountable for results. However, it also revealed that they tend to manage the day-to-day activities at the individual product lines better than those at the corporate level. To address this, CIPO is implementing client service standards. All managers have customer service at the top of their agendas.

CIPO executives and more than 100 supervisory staff attended the "Managing for Excellence"

course in 1995-96, which provides participants with the planning tools they need to continuously improve service delivery. In the new fiscal year, this program will be extended beyond the supervisory level to include a broader range of employees. All employees also had the opportunity to attend a presentation on customer service at their annual meeting. Information officers, who deal directly with the public on a daily basis, have received two additional days of training.

Posters on every floor of our Hull office display CIPO-wide standards. Branches are taking client service a step further. They are developing their own standards to measure performance against specific criteria. In 1995-96, CIPO established a minimum standard

that 95 per cent of patents be given accurate classifications for easy retrieval of patent documents. In addition, the application of prior art by examiners was monitored, measured and reported as 99 per cent within the required standard. Performance reports on turnaround times are published in the *Patent and Trademark Institute of Canada Bulletin*. These levels will be used as a benchmark for the Patent Branch against which future performance will be measured.

Our Service Commitment

Telephone

- We will receive general inquiries at the following number: (819) 997-1936.
- We will answer your call with courtesy and efficiency, and if necessary, refer you to the appropriate officer to deal with your inquiry in the official language of your choice.
- We will record all voice mail greetings clearly and bilingually. We will provide an alternative number for immediate contact.
- We will listen to voice mail messages at least once a day and return your call by the end of the next business day.

In person

- We will greet you within three minutes in the official language of your choice during normal business hours.
- We will direct you to a person competent to deal with your inquiry within five minutes.
- We will ensure that you meet with a specialist within twenty minutes of your arrival.



The Trade-marks Branch publishes client service standards, and reports its success in meeting those standards quarterly in the *Trade-marks Journal*. So far, the branch has halved the time it takes to acknowledge an application. The time from filing to first action has been cut from seven months to five, and the goal is to shorten it to four months.

The Trade-marks Opposition Board has also reduced turnaround times. The correspondence backlog has fallen from two or three months to one. Wher

Automating industrial designs

Like patents, industrial designs are difficult to computerize because they include illustrations. CIPO intensified its review of the user-friendliness of the industrial design classification system in 1995-96. The system is being refined, class by class, and categories are being reorganized or created.

In December 1995, CIPO launched a pilot project to convert the 75,000 registered industrial designs to a computer-readable format. To facilitate an effective computer search of these designs, CIPO needs to implement a system that can display 16 images on screen. Furthermore, it requires that users be able to flip through sketches, zoom in on specific areas of the drawing and be able to compare already-registered designs with the proposed design on screen. Testing of the new software began in February 1996.

Technology as a learning tool

CIPO is producing an interactive promotional self-help computer program, available on disk for Windows users, that explores many aspects of intellectual property. Called *Intellectus: Scoring in the Intellectual Property Arena*, the software package includes an interactive guide to various CIPO products, such as patents, trade-marks, copyrights, industrial designs and integrated circuit topographies, as well as stories and games that illustrate the value and usefulness of intellectual property.

Behind the Scenes

CIPO's people

When CIPO became an SOA, we also became responsible for our own human resources. To respond to client needs, we hired 18 patent examiners in the disciplines of electrical and electronic engineering and biotechnology.

The people employed by CIPO are the organization's most important asset. Our employees' backgrounds and skill sets are diversified, lending to a professional, multidisciplinary

workforce. A large proportion of CIPO staff has advanced education—that is, a university degree or higher. All patent examiners have professional certification such as an engineering degree, or a master's or honour's degree in pure or applied science. Thirteen examiners hold a doctorate in their scientific discipline.

delegated to the front line, employees are becoming equipped to make important decisions and respond to complex situations.

Management skills, service to the client and computer training were the three main areas of training and development for CIPO employees. As part of the Campaign for Excellence, a number of managers participated in the Management for Excellence and Management Planning Tools workshops. Following the launching of the client service standards for CIPO, a Customer Service



Workshop (Phone Power) was given to all CIPO employees. The workshop touched on culture change in government, setting consistent customer service standards and telephone etiquette. In addition, all employees of Information Branch participated in a two-day Client Service Workshop. A course entitled *Encountering the Media*, tailored to CIPO's particular needs, was given to every employee who may be required to encounter the media. Computer training continues to have an impact on all CIPO staff and a number of specific training workshops were provided to enable employees to perform their

Some 497 employees received training in 1995-96; customer service was a priority. Employees are continually enhancing their skills to meet the evolving requirements of a dynamic work environment. As increased responsibility is





duties more efficiently. The remainder of the courses were for personal development and individual needs.

CIPO is continuing to develop tools that ensure it has the proper staff to meet changing needs, including client service demands. An inventory of skills necessary to deliver its services is being compiled from the results of employee questionnaires. The inventory also lists where the people with those skills can be found in CIPO or indicates whether we must recruit outside of the organization.

Strategic planning

Also under development during 1995-96 was CIPO's new business plan to guide the agency during the 1996-97, 1997-98 and 1998-99 fiscal years. This second multi-year plan is based on the picture of the organization derived from the results of the Malcolm Baldrige assessment, and has been written to address service and efficiency gaps. The plan focuses on two corporate strategic objectives and CIPO's plans to meet them (see page 8).

Regulation

New *Patent Rules* were developed in 1995 as a result of

changes to the *Patent Act*. Every rule was reviewed and drafted in formal consultations with staff and with patent professionals. The new rules will come into force on October 1, 1996.

Major revisions to the *Trade-marks Regulations* will come into force on April 16, 1996.

Canada and the World

Driven by issues such as innovation, trade and investment, international intellectual property efforts continue to work towards

greater harmonization and the conclusion of treaties. These agreements help Canadians export their products and services and provide for an international intellectual property framework that is familiar to Canadians.

The World Intellectual Property Organization (WIPO) has several ongoing initiatives designed to further harmonize intellectual property regimes among its member states. WIPO Committees of Experts had initial discussions on the protection of well-known marks, and continued discussions on harmonizing procedural matters in the patent area. In the copyright area, a Diplomatic Conference on Certain Copyright

and Neighbouring Rights Questions is scheduled for December 1996.

Canada upgraded its memberships in the Paris Convention by acceding to the substantive provisions of the latest version of the Convention, the 1967 *Stockholm Act*. The purpose of the Convention is to strengthen the protection of industrial property among its member states, mainly in the patent, trade-mark and industrial design fields.

The federal government is also involved in two regional trade initiatives, namely talks on the Free Trade Area of the Americas and with the Asia Pacific Economic Cooperation group, both of which have an intellectual property component.

International trade agreements, and, in particular, the North American Free Trade Agreement (NAFTA) and the World Trade Organization Agreement on Trade-Related Aspects of Intellectual Property Rights Agreement (TRIPS), have influenced Canadian law as we conform to international standards. Legislation to implement Canada's TRIPS obligations came into force on January 1, 1996. For example, in the trade-marks area, Canada introduced a comprehensive set of procedures for the protection of geographical indications for wines and spirits.

Improved trade standards and harmonization of intellectual property laws ensure that all countries are playing by the same rules, which makes it easier—and more profitable—for Canadian companies to export and to compete in global markets.

A Look Ahead A Look Ahead A Look Ahead A Look Ahead

As CIPO moves into its next phase as an SOA, the second business plan sets out new and challenging strategic objectives:

- to foster an intellectual property culture in Canada; and
- to continuously improve the provision of goods and services that serve Canadian needs.

There are specific plans to keep these commitments:

To foster an intellectual property culture in Canada, CIPO will

- develop an employee capability to support and promote an intellectual property culture;
- develop new partnerships and build upon old ones; and
- adopt best practices for developing an intellectual property culture from other jurisdictions.



To continuously improve the provision of products and services that serve Canadian needs, CIPO will

- profile key current and potential clients;
- improve major processes that impact on the delivery of products and services;
- establish CIPO's role versus the private sector's in the delivery of products and services;
- acquire, improve and develop human resource capabilities to deliver products and services more effectively and efficiently; and
- integrate the use of information technology to improve information dissemination, harmonization of international intellectual property systems and operational management.



CIPO has also set objectives for some of its key product lines:

Patents: CIPO will reengineer patent operations to take advantage of automation, such as TechSource.

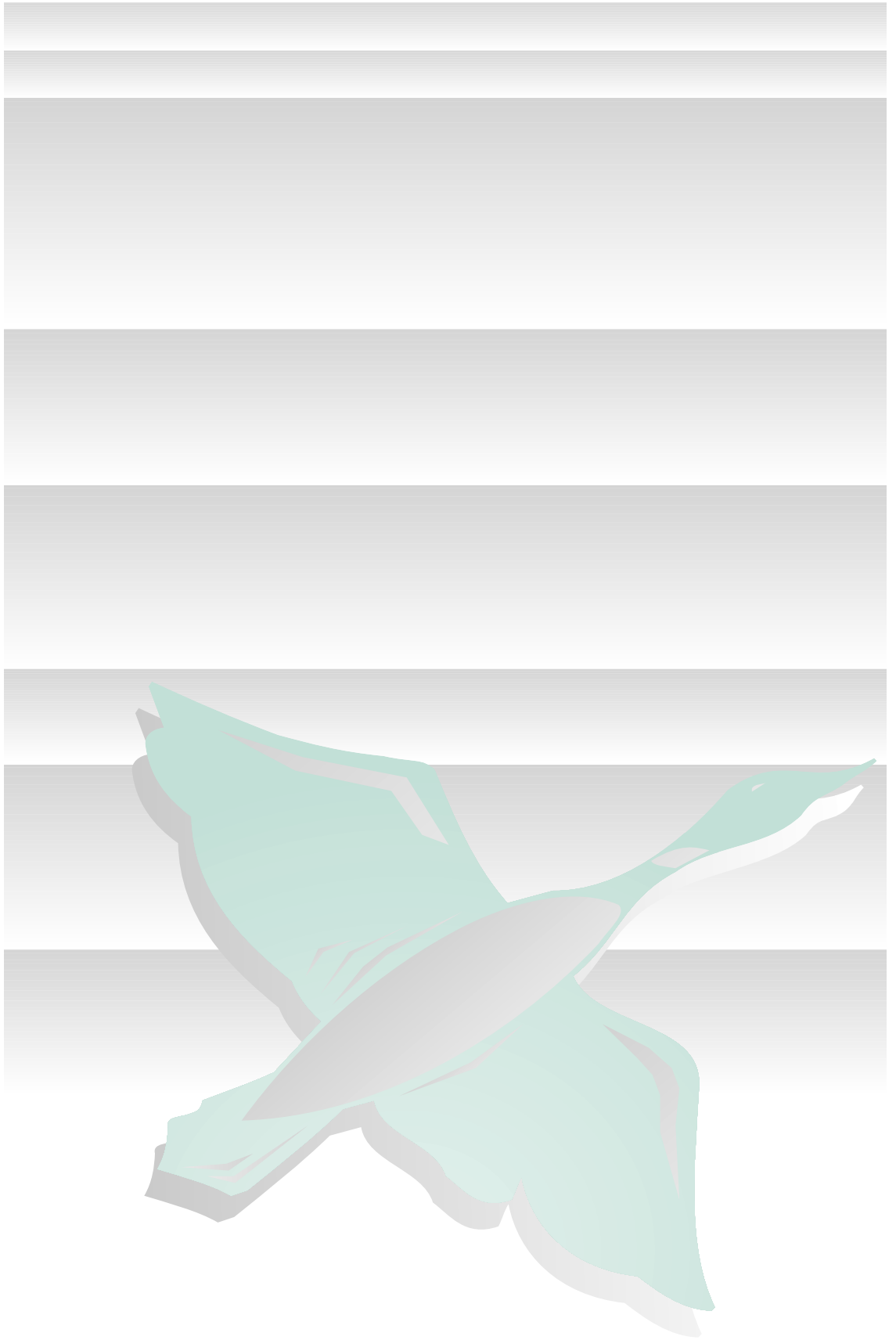
Trade-marks: In consultation with the private sector, CIPO will reengineer the opposition proceedings to render the process more responsive to client needs.

Copyrights: CIPO will evaluate the effectiveness of the copyright registration system in light of new technologies.

Industrial designs: CIPO will review the legislation covering industrial designs, and will also continue to automate the registration system.

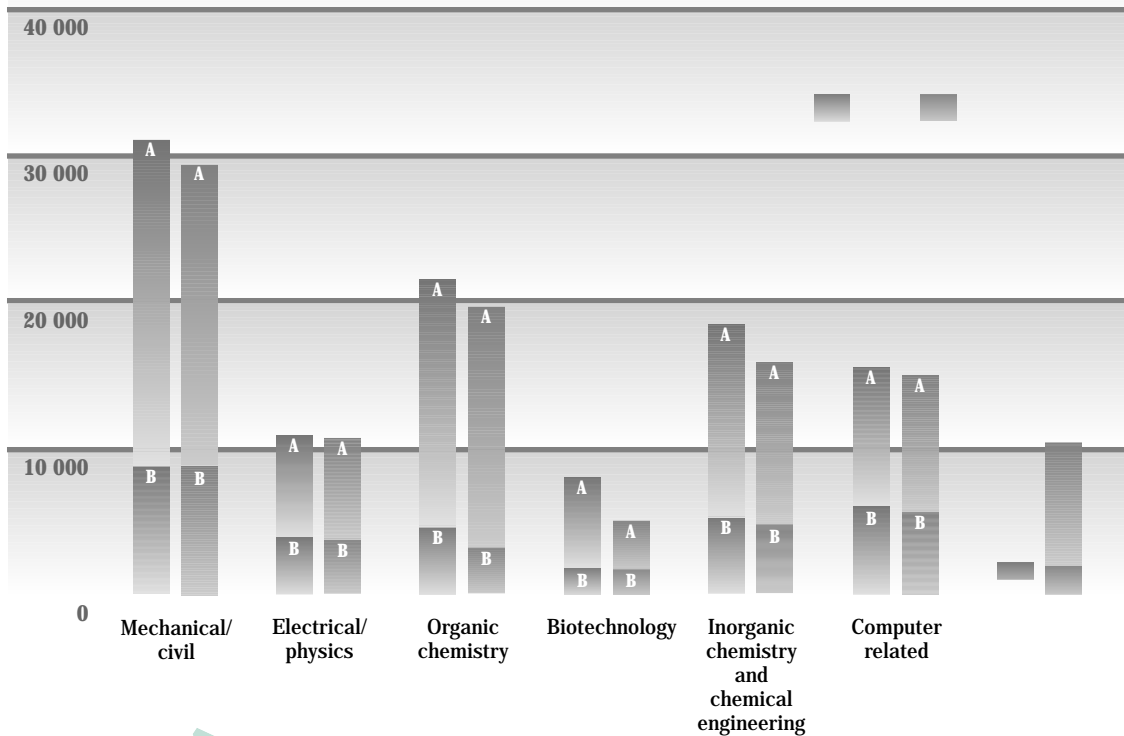
Information: CIPO will provide access to strategic technology and knowledge-based products and services across Canada.





Patents

Patent caseload and workload by discipline on applications filed between October 1, 1989 and March 31, 1996.



1995-96

1994-95

Abandonments

Regular	1,495	2,683
Non payment of maintenance fees	29,560	31,500
Applications abandoned (new act)	10,149	10,807
Patents about to lapse (old act)	5,972	7,596
Applications dead (new act)	7,465	7,466
Patents lapsed (old act)	5,974	5,631

Trade-marks

1995-96

1994-95

Registrations expunged	7,528	5,847
Amendments entered on the register	45,718	40,009

Financial Report Financial Report Financial Report

Management Report

The accompanying financial statements of the Canadian Intellectual Property Office (CIPO) Revolving Fund have been prepared by CIPO in accordance with Treasury Board policies and the reporting requirements and standards of the Receiver General for Canada. Financial information contained in the ministerial statements and elsewhere in the Public Accounts of Canada is consistent with that in these financial statements. These financial statements were prepared in accordance with generally accepted accounting principles. Significant accounting policies are set out in Note 2. Some of the information included in these financial statements is based on management's best estimates and judgements and gives due consideration to materiality. At the request of CIPO, these financial statements have been examined by external auditors, their role being to express an opinion as to whether the financial statements present fairly the financial position as at March 31, 1996 and the results of operations and the changes in financial position for the year then ended in accordance with generally accepted accounting principles.

The Canadian Intellectual Property Office maintains internal controls designed to indicate accountability, and provide assurance that assets are safeguarded and that reliable financial records are kept. Financial management and internal controls are augmented by the maintenance of internal audit programs. The functional responsibility for integrity and objectivity of these financial statements rests with CIPO which develops and disseminates financial management and accounting policies and issues specific directives necessary to maintain standards of accounting and financial management. The external audit was conducted to assure objectivity and freedom from bias in the accompanying financial statements.

Special Operating Agency status and the revolving fund enable CIPO to improve service to clients by managing operations on a long-term basis. CIPO has committed to breakeven on five-year periods, including allowances for future year investments. In 1995-96, the second year of the first five-year period, CIPO made a profit of \$11.4 million. This surplus is required to continue the automation of operations. In 1996-97 CIPO will be funding \$7.4 million for the TechSource patent automation project and \$2 million for trade-marks automation. These automation projects will result in the provision of easier access to intellectual property information in all parts of Canada.



Anthony McDonough
Acting Commissioner of Patents and Registrar of Trade-marks



Brenda Snarr
Director, Finance & Administration

August 7, 1996

Auditor's Report to the Deputy Minister, Industry Canada

We have audited the balance sheet of the Canadian Intellectual Property Office (CIPO) as at March 31, 1996 and the statements of operations and accumulated surplus and changes in financial position for the year then ended. These financial statements are the responsibility of the management of CIPO. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of CIPO as at March 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

KPMG Peat Marwick Thorne

KPMG Peat Marwick Thorne
Chartered Accountants

Ottawa, Canada

May 17, 1996



Canadian Intellectual Property Office
Revolving Fund
Balance Sheet
As at March 31, 1996

(thousands of dollars)

Assets	1996	1995
Current		
Petty cash	\$ 2	\$ 2
Government of Canada receivables	2,040	1,420
Outside party accounts receivable	740	1,328
Unbilled revenue	4,748	5,735
Prepaid expenses	<u>21</u>	<u>-</u>
	7,551	8,485
Capital assets (note 4)	85,545	69,294
Unbilled revenue	<u>1,271</u>	<u>237</u>
	<u>\$94,367</u>	<u>\$78,016</u>
Liabilities		
Current		
Deposit accounts	\$ 202	\$ 86
Government of Canada payables	1,568	9,141
Outside party payables	5,382	3,687
Deferred revenue	<u>11,748</u>	<u>11,898</u>
	<u>18,900</u>	<u>24,812</u>
Employee termination accrual	713	238
Deferred revenue	<u>8,180</u>	<u>7,394</u>
	<u>8,893</u>	<u>7,632</u>
Equity of Canada (note 3)	<u>66,574</u>	<u>45,572</u>
	<u>\$94,367</u>	<u>\$78,016</u>
Contingencies (note 9)		

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

Canadian Intellectual Property Office
Revolving Fund
Statement of Operations
For the year ended March 31, 1996

(thousands of dollars)

	1996	1995
Revenue	<u>\$49,585</u>	<u>\$44,769</u>
Salaries & benefits	27,191	23,565
Professional services	3,373	2,692
Accommodation	2,605	2,159
Amortization	1,247	251
Information	1,051	575
Materials & supplies	828	666
Communications	489	506
Repairs & maintenance	399	116
Travel	340	213
Freight & postage	244	232
Training	233	167
Rentals	<u>192</u>	<u>102</u>
	<u>31,192</u>	<u>31,244</u>
Net profit	<u>\$11,393</u>	<u>\$13,525</u>

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

Canadian Intellectual Property Office
Revolving Fund
Statement of Accumulated Surplus
For the year ended March 31, 1996

(thousands of dollars)

	1996	1995
Balance, beginning of year (note 3)	\$4,077	\$(9,448)
Net profit for the year	<u>11,393</u>	<u>13,525</u>
Balance, end of year	<u>\$15,470</u>	<u>\$4,077</u>

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





Notes to Financial Statements

1. Purpose and Authority

The Canadian Intellectual Property Office (CIPO) grants or registers exclusive ownership of intellectual property in Canada. In exchange, CIPO acquires intellectual property information and state-of-the-art technology which it disseminates to Canadian firms, industries and individuals to improve economic performance, competitiveness and to stimulate further invention and innovation.

The CIPO Revolving Fund was established on April 1, 1994. The authority to make expenditures out of the Consolidated Revenue Fund was granted on February 22, 1994 with an authorized limit of \$25,000,000. CIPO has continuing non-lapsing authority from Parliament to make payments out of the Consolidated Revenue Fund for working capital, capital acquisitions and temporary financing of accumulated operating deficits. CIPO may retain surpluses within the Revolving Fund to continue to automate operations.

2. Significant Accounting Policies

Revenue recognition

Revenue derived from processing patent, trade-mark and industrial design applications is recognized using the percentage of completion method as work progresses. Other revenue is recognized upon receipt. Fees are prescribed by various Orders in Council.

Capital assets and amortization

Capital assets transferred to the Revolving Fund on its establishment are recorded at the Crown's costs less accumulated amortization and capital assets acquired subsequent to implementation of the Revolving Fund are recorded at cost. Capital assets are amortized on a straight-line basis over their estimated useful lives, beginning in the month after acquisition, as follows:

Software	3 years
Hardware	5 years
Furniture	15 years
Equipment	10 years
Leasehold improvement	term of the lease, beginning in 1995-96
Systems, under development	estimated useful life, beginning in 1996-97

Employee termination benefits and vacation pay

Employees of CIPO are entitled to specified termination benefits, calculated based on salary levels in effect at the time of termination as provided for under collective agreements and conditions of employment. Employee termination benefits earned prior to an employee joining the Revolving Fund are a liability of the Treasury Board and accordingly have not been recorded in the accounts. As at March 31, 1996, the Treasury Board liability for CIPO employees is \$5.5 million. The liability for benefits earned after an employee joins the Revolving Fund is recorded in the accounts as the benefits accrue to employees.

Vacation pay of \$1.1 million owing to employees at April 1, 1994 will be funded by Treasury Board. This amount is included in accounts receivable. Subsequent to April 1, 1994, vacation pay owing at the time an employee joins the Revolving Fund is payable to the Revolving Fund by the Department from which the employee came. The liability for benefits earned after an employee joins the Revolving Fund is recorded in the accounts as the benefits accrue to employees.

Pension plan

Employees of CIPO are covered by the Public Service Superannuation Plan administered by the Government of Canada. Under present legislation, contributions made by CIPO to the Plan are limited to an amount equal to the employee's contributions on account of current service. These contributions represent the total pension obligations of CIPO and are charged to operations on a current basis. CIPO is not required under present legislation to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account and/or with respect to charges to the Consolidated Revenue Fund for the indexation of payments under the *Supplementary Retirement Benefits Act*.





5. Contractual Obligations (\$000s)

TechSource

CIPO has contracted IBM Canada to produce a turn-key patent automation system by 1996-97, the final year of the contract. Amounts committed in 1996-97 comprise:

Prime contract	\$ 5,338
Ongoing facilities maintenance	<u>3,728</u>
	<u>\$ 9,066</u>

Leases

CIPO leases its premises under operating leases. Future lease payments are as follows:

1997	\$3,026
1998	2,833
1999	2,754
2000	2,754

6. Changes in Working Capital (\$000s)

Components of the change in working capital include:

	1996	1995
Petty cash	\$ -	\$ (2)
Accounts receivable	(32)	(2,748)
Unbilled revenue	987	941
Prepaid expenses	(21)	-
Deposit accounts	116	86
Accounts payable	(5,878)	12,828
Deferred revenue	<u>(150)</u>	<u>1,301</u>
	<u>\$ (4,978)</u>	<u>\$12,406</u>

7. Related party transactions

Through common ownership, CIPO is related to all Government of Canada created departments, agencies and Crown corporations. Payments for accommodation and legal services are made to related parties in the normal course of business.

8. Insurance

CIPO does not carry insurance on its property. This is in accordance with the Government of Canada policy of self insurance.

9. Contingencies

Employees are permitted to accumulate unused sick leave. However, such leave entitlements do not vest and can be used only in the event of illness. The amount of accumulated sick leave entitlements which will become payable in future years cannot reasonably be determined and accordingly have not been recorded in the accompanying financial statements. Payments of sick leave benefits are included in current operations as incurred.

10. Income taxes

CIPO is not subject to income taxes.

