

rpc

SCIENCE & ENGINEERING



Innovation for Industry

2012
2013

ANNUAL REPORT

STRATEGIC PLAN 2010-2015

RPC's Vision Statement

RPC will excel in technological innovation, enabling our partners in business and industry to create wealth and high quality employment opportunities.

RPC's Mission Statement

Our mission is to assist small and medium size enterprises (SMEs) in New Brunswick to develop and apply innovative technology, and to provide specialized laboratory-based technical services to clients in New Brunswick and the global marketplace.

Strategic Corporate Objectives

Strategic corporate objectives have been derived from the mission statement to reflect stakeholder input and the needs of the organization. The objectives are targets intended to challenge the organization and provide a basis for planning. The strategic plan has been endorsed by RPC's board of directors and defines the direction for the organization.

The strategic plan includes a description of the process, summary of inputs and results, objectives, rationale, measures, and preliminary actions. The objectives have been developed to be specific, measurable, actionable, realistic and timely (SMART).

Celebrating 50 Years As New Brunswick's Provincial Research Organization

In June, RPC celebrated its 50th anniversary with a reception that included customers, employees, retirees, industry groups, academics, board members and government. Innovation stakeholders from throughout the community were in attendance. A slide show with photos from the past 50 years of RPC projects and milestones provoked memories. Classical guitarist Stephen Peacock entertained the guests.

The attendees were addressed by Premier David Alward who recognized RPC's important role in business innovation and emphasized that effective innovation is key to New Brunswick's economy. Premier Alward considers innovation to be "the rocket fuel for the New Brunswick economy."

Executive Director Eric Cook reflected on RPC's mandate, "Our mandate is to be the science, research and technical service arm of government focused on stimulating business competitiveness", noting that the mandate is every bit as relevant today as it was in 1962. "RPC's research is market-driven", remarked Cook, "with paying customers anxious for RPC to deliver so they can employ the results for commercial benefit."

Cook reported that RPC serves over 900 customers annually including projects from over 30 international clients. RPC serves many sectors of the economy with specialization in analytical chemistry, mineral processing, aquaculture, energy, manufacturing and industrial processes.



STRATEGIC CORPORATE OBJECTIVES

1 Grow our revenue, invest in our business

The RPC business model for recovering overheads and reinvesting consists of two components: 1) a modest provincial grant; and, 2) margin from technical services. Growth of our business requires growth in both of these components.

Specific measures of success have been identified, including a 4% annual sales revenue growth target (\$11 million by 2015), introduction of new service offerings at the rate of at least one per year, and maintenance of our 95% customer satisfaction as determined through our survey process.

2 Balance our innovation activities

RPC services can be categorized as: 1) technical services (analyses, tests, and investigations); and, 2) applied research.

Technical services have predictable costs and minimal financial risk and, if effectively managed, can generate positive margins. While New Brunswick industry depends on RPC delivering these services locally, they also benefit from RPC's applied research capabilities. This initiative aims to place more focus on the applied research aspects of our organization.

Applied research is a key component of our mandate and consistent with the scope of other provincial research organizations. In fact, with the tremendous resources focused on basic research, RPC has an important role in balancing innovation strategy by delivering applied research services for industry. However, increasing applied research introduces more risk and more cost to the organization. Balancing our innovation activities will involve hiring new employees with new capabilities and is likely to have a moderating affect on our net income.

Measures of success include the introduction of at least two new or substantially advanced technology offerings associated specifically with new capabilities through recruitment and equipment purchases, and growing our applied research and consulting services by 15% from the 2009/2010 billing levels.

3 Grow our human capital

RPC's success requires continued investment in our human capital. Demographic trends are sure to increase the significance of human capital. RPC will experience a number of retirements in the coming five-year period and will need successors. Additionally, the strategic objective to balance our innovation activities will require new hires.

Our plan calls for growth in human capital. Measures of success include: 1) increasing the percentage of Masters and PhD level employees from 15% of our workforce to 20% by 2015; 2) adding five strategic hires that expand our capabilities over the next five years; and, 3) reducing our exposure to specific risks identified in our Succession Plan.

4 Revitalize our relationship with our owner

There are opportunities for improving the relationship with our owner as ongoing issues with duplication and reduction of our annual grant indicate there is a lack of awareness regarding RPC's role as New Brunswick's provincial research organization. As globalization and productivity challenges place renewed significance on applied research and technology, RPC's role is critically important.

Measures of success include: 1) restoration of the annual provincial grant; 2) recognition of RPC's leading role in provincial innovation and applied research policy; 3) 50% increase in sales to the provincial government; and, 4) increased activity and communications with government.

5 Expand RPC awareness and understanding

RPC enjoys an excellent relationship with established customers and attracts new customers annually. However, to maximize our value and avoid initiatives that duplicate established RPC capabilities, we need to create widespread awareness and understanding of the organization. This initiative is to improve the awareness and understanding of RPC's role as the provincial research organization.

Measures of success include: 1) meet the sales revenue increases identified in strategic objective #1; 2) retention of top 10 customers; 3) zero examples of government duplication through new lab construction; and, 4) recognition of our 50th anniversary (in 2012).



FROM THE CHAIRMAN AND EXECUTIVE DIRECTOR

During 2012-2013, RPC recognized 50 years as New Brunswick's provincial research organization. Over the past five decades, RPC has grown from a modest annual budget of \$50,000, made available through a provincial grant, to a vibrant operation generating over \$10 million in revenue. Our employee base has grown from its initial three to a diverse, highly skilled group of 98. Our facilities have grown from a handful of basic instruments valued under \$10,000 to an expansive 13,000 m² facility with millions of dollars in modern equipment and a satellite laboratory in Moncton. Most importantly, our client base has grown from a modest 20 research projects to over 900 paying customers including local, regional, national and international clients.

Many of RPC's 900 clients are loyal, repeat customers that have done business with RPC for decades. By providing capable and qualified staff, effective procedures, modern equipment and exceptional customer service, we have earned the loyalty of our clients. RPC's quality assurance surveys reflect an impressive 100% of clients indicating they would do business again with RPC.

Our current staff and clients are the beneficiaries of visionaries who founded RPC over half a century ago. They recognized that to remain competitive and avoid obsolescence, it is critical for industry to adopt new technology, improve productivity and develop innovative processes and products. The fact that these aspirations remain every bit as critical today validates the relevancy of New Brunswick's provincial research organization.

In reviewing historic documents, RPC was viewed as a brain trust that would attract and retain scientists, engineers and technologists. In the first annual report, Chairman Dr. Les Schemilt outlined a vision for RPC, as the scientific and research arm of government that would develop resources to become the scientific, research and technical service arm of industry. As evidenced by our resources and client base, we have significantly progressed towards this goal.

Performance during 2012-2013 was excellent and particularly satisfying given the struggling economy. For the second time, revenues exceeded \$10 million and our net income surpassed our target (see *Annual Plan Goals, Produce a Positive Net Income, Meet Our Targets*, p 6). RPC continued to grow its capabilities adding new service lines (see *It's a Gas: RPC Adds Accreditations for Dissolved Methane and Dissolved Ethane in Water*, p 7) and applying science to solve industrial challenges (see *RPC Merit Award, Analysis of Male-Specific Coliphage (MSC): A new tool for the assessment of wastewater treatment efficacy*, p 9). These are two examples of market-led research and development. A market need was identified and RPC researched and developed a solution. Market-led research is the mandate of RPC. It is an important, but frequently neglected, element of innovation (see *Invention or Innovation? RPC Advocates Market-Led Innovation*, p 8).

RPC's annual plan goals are developed to complement our five-year strategic plan (see inside cover and *Annual Plan Goals 2012-2013*, p 6). The primary performance indicator is our financial performance which surpassed expectations despite New Brunswick being one of two provinces whose gross domestic product declined in 2012. As described in *Annual Plan Goals 2012-2013*, p 6, excellent progress was achieved on the three additional goals: growth, succession and value proposition. Excellent performance combined with a golden anniversary celebration made 2012-2013 an outstanding year.

Lights, Camera, Innovation: RPC Launches Impact Movie

In August, RPC launched its latest marketing tool, the RPC impact movie. The impact movie delivers an RPC overview in an informative, concise three-minute multimedia message. Available on RPC's YouTube channel, we also introduced a QR code to promote the presentation.



The graphic features the RPC logo (Science & Engineering) in the top left. Below it is a grid of various scientific and engineering icons. A silhouette of a person is shown pushing a large globe. The text 'We enable your success by helping you Overcome Challenges & Obstacles' is positioned in the lower left. On the right, the text reads 'Our impact movie can be viewed at: www.rpc.ca/ImpactMovie/' and 'Or scan the QR code:' followed by a QR code.

The Outlook

Other parts of Canada appear to be emerging from a sputtering economy, but that is not the case in New Brunswick. Major projects at the Point Lepreau Nuclear Generating Station and the potash mine in Sussex helped to stimulate provincial economic activity over the past few years; however, both of these projects have been completed. There is some hope for further development in the mining sector, yet suppressed global demand for commodities has delayed development and presented challenges in raising capital. Forestry has mounted a comeback, but it is not expected to be the economic powerhouse it once was. Growth in the manufacturing sector has stalled. Governments have been, or will be, cutting spending. These factors have contributed to growing unemployment. In short, economic indicators would suggest conditions are not favourable for business growth. Since our business is directly influenced by the health of the economy, RPC has been, and will continue to be, impacted by these challenging conditions.

Despite the concerning outlook, there are some opportunities. In keeping with RPC's mandate to help business be competitive, this is a time of great need for New Brunswick industry. RPC has expertise in manufacturing, analytical chemistry, physical metallurgy, energy, mining, aquaculture and environmental processing, all which have and can help business become more productive with new and improved processes and products. Governments have begun to focus more attention on market-led research and have announced incentive programs for business. This should result in some opportunities for RPC. Other potential developments include the west to east pipeline that, if constructed in New Brunswick, would lead to opportunities in analytical services including environmental chemistry and physical metallurgy, and a number of mining projects that would lead to additional work if they secure approvals and funding.

Part of RPC's strength and sustainability has been our success in exporting services. Some services are in demand nationally and globally and we will be marketing those services in hopes to benefit from stronger economies outside New Brunswick. For example, we are monitoring opportunities with the Halifax shipbuilding program and various developments in Newfoundland and Labrador.

RPC helps our clients to renew and upgrade their products and services but the organization must continually improve itself. With this in mind, we are pursuing strategic hires that could lead to new service offerings. We are continuing to invest in equipment and facilities and to research market opportunities. We remain in close contact with our clients and industry groups to identify emerging needs and opportunities.

RPC has prospered with a series of years producing exceptional performance. We are not confident that performance can be repeated in the current climate. However, the availability of our services is critical during such times and we expect to be fully engaged in executing our mandate.

Notes of Appreciation

Thank you to Premier Alward who helped to celebrate RPC's 50th anniversary in June 2012. His passion for innovation is shared by RPC and we appreciate the recognition of RPC's role on the provincial economy.

We would also like to thank the Ministers and MLAs who toured RPC during a series of MLA tours early in 2013. RPC is a success story in which all New Brunswickers can take pride. We appreciate the MLAs taking time to better understand the organization.

We are grateful for the support of agencies that are committed to advancing the New Brunswick economy including Economic Development, the New Brunswick Innovation Foundation, Invest New Brunswick, the Industrial Research Assistance Program, Natural Science and Engineering Research Council and the Atlantic Canada Opportunities Agency.

We are also appreciative of our volunteer board of directors, individuals who are committed to helping New Brunswick's provincial research organization (see *RPC Board of Directors*, p 10). RPC's directors are proud advocates for the organization.

We owe sincere thanks to RPC's outstanding employees. Their customer focus and commitment to excellence is evident in their daily activities and substantiated by client feedback and quality assurance surveys. Our employees demonstrate passion for their careers, their employer and their clients, directly contributing to RPC's success.

Finally, we would like to recognize our clients who engage and challenge us. We are proud to serve over 900 clients annually and appreciate the positive feedback and loyalty extended to us. Client needs have resulted in RPC expanding its expertise and diversifying. Potato chips, nuclear power generators, farmed salmon, video gambling machines, life boats, drinking water, mine developments, hospitals, frozen french fries, schools, fire departments, drum sticks, pulp mills, and metal fabricators, all have one thing in common; they are examples of products, services and industries that RPC has helped to develop, improve, troubleshoot, analyse or inspect. Not only are there over 900 additional examples, RPC's scientists and engineers are working on technologies and capabilities to serve client needs for the next 50 years. Expect more great products and services.



Kenneth Reeder, P.Eng.
Chairman



Eric Cook, P.Eng., MBA
Executive Director/CEO

ANNUAL PLAN GOALS FOR 2012-2013

RPC's Annual Plan for 2012-2013 is a subsidiary document to the Strategic Plan 2010-2015. The Annual Plan cross references the strategic corporate objectives and is endorsed by the board of directors. The annual plan goals, and the relevant progress made, are reported below.

Progress achieved regarding *Corporate Objectives* identified in the 2012-2013 Annual Plan is summarized below.

I. Produce a positive net income, meet our targets.

This objective was achieved. Revenues exceeded \$10 million repeating a milestone achievement (see *Consolidated Statement of Operations*, p 14).

Despite an economic downturn and the end of stimulus spending, gross margins were sustained in most analytical service lines. We were pleased with the revenue increases in our engineering and consulting services, groups that perform applied research. Overall, we produced a positive net income significantly surpassing our target (see *Consolidated Statement of Operations*, p 14).

The *Revenue Sources Profile* (Chart 1), illustrates that the bulk of RPC's sales revenue (82%) continues to come from industry. Revenue from federal sources was up slightly and remained the second largest revenue source (7.7%). Revenue from the provincial government was down. The provincial grant increased to \$100,000, a much-appreciated contribution but substantially below historic funding for New Brunswick's provincial research organization.

The *Clients by Location* (Chart 2), illustrates that 540 of RPC's 981 clients (55%) were from New Brunswick. Other clients were regional (20%), national (22%) and international (3%). The number of clients served decreased by about 5%, a decline attributed to the tough economic climate.

RPC's expertise attracted 441 clients from outside New Brunswick, including 31 international clients. In addition to substantiating our relevance, exporting is critically important to our sustainability. As illustrated in Chart 3, *Clients Served by Revenue*, RPC exported over \$4.1 million of services from the province helping to create and maintain highly skilled labour opportunities in New Brunswick. Export revenues were up over \$430,000 offsetting a similar decline in revenues from New Brunswick sources.

As detailed by the analysis above and the results presented in the financial statements presented in this report, the objective of producing a profitable result was fulfilled. Provincially, the economy was slow, influenced by the completion of major projects including the Point Lepreau refurbishment and the potash mine expansion. RPC was also impacted negatively by the new shale gas regulations, which mandated a significant commercial contract away from RPC and to a provincial laboratory. We were successful in offsetting provincial revenue declines by growing revenues from outside the province. Overall, RPC's performance exceeded the target, an excellent accomplishment in a difficult economy.

CHART 1: REVENUE SOURCES PROFILE

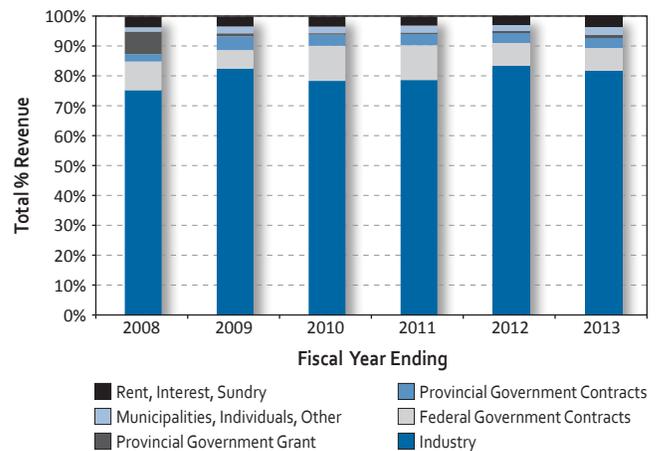


CHART 2: CLIENTS BY LOCATION

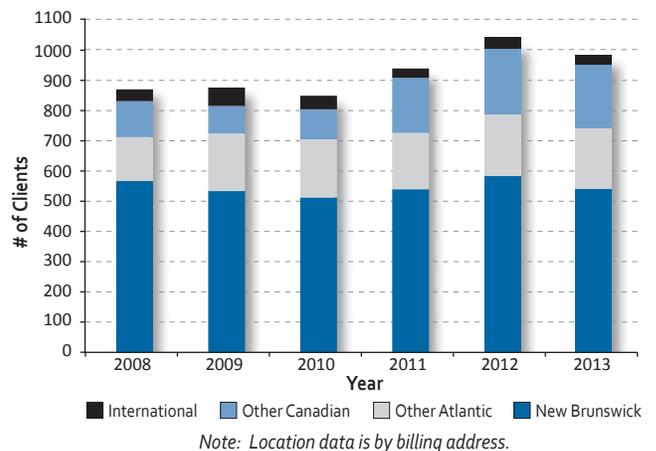
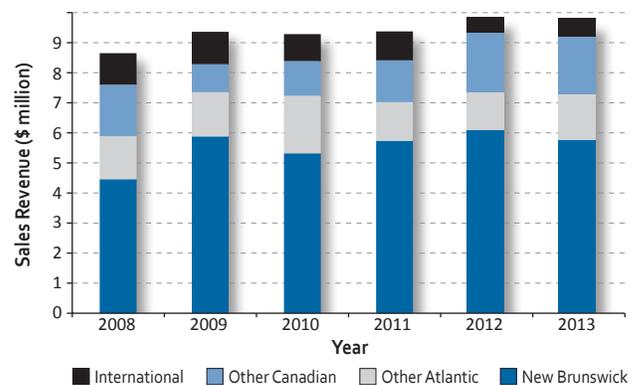


CHART 3: CLIENTS SERVED BY REVENUE



It's a Gas: RPC Adds Accreditations for Dissolved Methane and Dissolved Ethane in Water

II. Pursue business growth opportunities.

The slow economy made this goal particularly challenging, however there was good progress made in establishing new business leads, re-energizing relations with past clients and developing new service offerings.

We continued our company visits program, participating in speaking opportunities, were active in sponsorship, and sustained our advertising effort. A TV commercial was developed and will be launched in May of 2013. RPC's impact movie, a three-minute multimedia overview of RPC was successfully launched. There were numerous promotions to celebrate our 50th anniversary. Marketing efforts were expanded including a trade show in Newfoundland and engaging a business development consultant for South America.

RPC staff is active on a number of boards and committees. These efforts help RPC to stay connected to clients and learn of their needs and challenges.

Our IRAP Network Members' agreement was fully utilized and extended. The Network Members' agreement is an IRAP program that allows RPC to provide consulting services for small projects and is an excellent means to assist companies and develop relationships.

We also learned that RPC will be eligible for the New Brunswick Innovation Voucher program, a program to assist SMEs with their innovation needs.

We launched new service lines including dissolved methane in water (see text box on this page), and Male-Specific Coliphage (see *Merit Award*, p 9).

We are continuing to investigate market opportunities for expanding our business with specific interest in the life science area.

Our total revenue increased marginally during the year. There was growth in new business revenue but this was offset by declines in traditional business.

III. Advance succession plan.

RPC is fortunate to have many long-serving employees, many who are subject matter experts with 25-35 years of experience. As the baby boomers approach retirement, RPC is facing succession challenges.

We addressed two key positions during the past year, promoting a successor for one manager who retired after 35 years of service and preparing a recent hire to succeed another manager who will be retiring in late 2013. Additionally, we reassigned a resource in our engineering group to strengthen the capacity for that group. We hired an accounting manager who will address financial

RPC continues to expand its capabilities in gas analysis, becoming accredited for two new parameters; dissolved methane in water and dissolved ethane in water. Both parameters are potential drinking water contaminants. They are of particular interest in areas known to have natural gas.

Methane is a colourless, odourless gas and is lighter than air. Methane is not considered toxic, but it is an asphyxiant at high concentrations. Methane is extremely flammable and can be easily ignited. It occurs naturally as a result of methane producing bacteria. At standard temperature and pressure, ethane is also an odourless, colourless gas and the second largest component of natural gas.

The accreditation through the Standards Council of Canada (SCC) adds to RPC's comprehensive scope of accredited test parameters. A complete listing of RPC's scope is available on the SCC website (see: <http://www.scc.ca/en/palcan/28>). Accreditation ensures that trained personnel perform the method to a recognized standard. Methods are regularly audited and require periodic proficiency testing.

"We are already experiencing a steady demand for these services and, as concern for drinking water quality grows, we are anticipating increasing demand," noted Dr. Diane Botelho, who led the effort to research and develop the methods. Dr. Botelho is working on new parameters to add to RPC's scope of accreditations for gas analyses.

These analyses are available through RPC's air quality group that already offers a comprehensive suite of testing including accredited mould, asbestos, medical gas, and breathing air analysis. Other air quality testing services include radon gas and urea formaldehyde foam insulation (UFFI) surveys.



ANNUAL PLAN GOALS FOR 2012-2013 continued

management and reporting succession. And, we have identified a software programmer to prepare for succeeding the employee who administers our enterprise resource planning when she retires in the Fall of 2013.

While we effectively addressed our current needs and prepared for several near term departures, this objective will be carried forward as we are anticipating additional retirements in the coming years.

IV. Promote Provincial Research Organization (PRO) value proposition.

Significant effort was focused on this objective including a series of MLA tours, Minister presentations, committee submissions, correspondence and discussions with the Premier, our presentation to the Standing Committee on Crown Corporations, communications with several deputy ministers and publicizing RPC's mandate as New Brunswick's provincial research organization.

Despite an enormous effort and widespread agreement with our message, there were only minor successes. We ensured eligibility for the province's new innovation programs. We received an inquiry about providing a lab service to a department that was eliminating the service. We managed to retain a municipal contract for which a provincial government lab had aggressively bid. However, our major concern was, unfortunately, realized. Shale gas regulations requiring samples to be processed by the Department of Environment and Local Government lab were implemented resulting in the loss of a significant annual contract previously awarded to RPC.

We have highlighted two areas, fish health and environmental analytical services, where the province has duplicated RPC's existing service offerings. RPC sells these services to commercial clients within New Brunswick, nationally and internationally. We continue to be interested in selling our services to the Province and have highlighted them as cost saving opportunities for the Province.

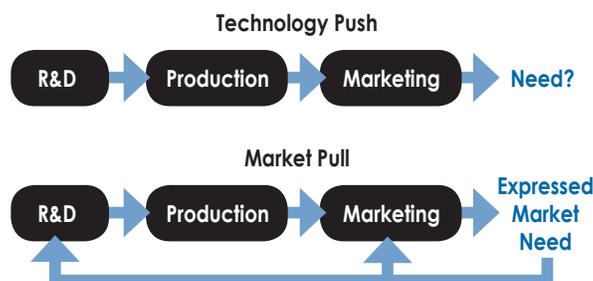
Invention or Innovation? RPC Advocates Market-Led Innovation

Innovation has been widely recognized as critical to vibrant economies. This has led to significant incentives for research and development but much of the focus has been in support of curiosity-driven research, a.k.a., technology push. Outcomes from curiosity-driven research include knowledge, discovery, and highly qualified personnel. The sustained focus on curiosity-driven research has resulted in some suggesting Canada has an effective invention policy rather than an innovation policy.

The ultimate goal for research investments is normally to produce innovation, which is a novel idea that has social or economic value. Innovation is a more frequent outcome of market-driven, or market-pull, research - RPC's specialization. RPC has been advocating a balanced innovation policy, one that includes more focus on market-driven (pull) research. Over the past year, activities in support of this goal included:

- Participation in the Council of Canadian Academies' expert panel on the State of Industrial Research and Development in Canada. This report, commissioned by Industry Canada, will be released in August 2013 and promises to influence federal policy for industrial research.
- Rethinking New Brunswick's Innovation Strategy, an editorial written for the Telegraph Journal that promotes market-driven research. The commentary received supportive responses both locally and nationally.
- Hosting the National Research Council's Innovation Insights Tour. This was in conjunction with the Canadian Manufacturers and Exporters annual general meeting. An RPC tour was provided as well as a presentation advocating industry-led research.
- "Winning Customers with Market-Driven Innovation", an invited blog submission for Start-up Canada. The blog identified the importance of market-driven research.
- Participation in the Innoventures Canada, Innovation School. These workshops included presentations on applied research and market-led innovation from other provincial research organizations and the National Research Council.

Technology Push vs. Market Pull



RPC EMPLOYEES

2012-2013 Merit Award

Each year RPC recognizes an individual or team of individuals who are responsible for a substantial achievement at RPC. The 2012-2013 Merit Award was presented to the team from the Food, Fisheries and Aquaculture (FFA) department for the project: "Analysis of Male-Specific Coliphage (MSC), a new tool for the assessment of wastewater treatment efficacy."

Male-Specific Coliphage is a virus commonly found in sewage effluent and can be used as a viral indicator of human fecal pollution in water and shellfish.

RPC implemented several methodologies for growth and analysis of MSC following inquiries from federal and provincial departments. These methodologies formed the basis for eight projects that assessed wastewater treatment efficacy from sewage treatment plants, fish processing facilities, as well as a federal quarantine research station. Results have contributed to the reassessment of restricted shellfish harvesting boundaries, permitted industry compliance with new regulations, and enabled cutting edge product improvement research. This project represents a new revenue stream and is an excellent example of one that applies science to solve industry needs. It has been recognized with the 2012-2013 RPC Merit Award.

In presenting the award Executive Director Eric Cook noted, "This is another excellent example of market-led research and development. This team conducted research in response to an industry need and it resulted in a commercial solution."



2012-2013 Merit Award Team Members (from left to right):

Back: Dr. David Thumbi, Dr. Tony Manning, Dr. Ben Forward, Eric Johnsen

Front: Jessica Jones, Rebecca Liston, Renee Jeffrey, Lenora Fanjoy

2012-2013 Employee Career Milestones

5 Years

Rachael Douglass
Nick Spinney
Darren Tarr

10 Years

Josh Perry
Tony Wilkins
Erin Craig
Bruce Phillips
Karla McLellan

15 Years

Keith McLellan
Julian Cristian

20 Years

Dr. Pawel Kielczynski
Troy Smith

25 Years

Frances Ferguson
Lenora Fanjoy

30 Years

Sheila Burns
Rob McFee

Senior Management Team (as of March 31, 2013)

Executive Management

Eric Cook, Executive Director/CEO
Stephen Fox, Chief Operating Officer/CFO

Department Heads

John Aikens, Mechanical Systems & Diagnostics and Physical Metallurgy
Eric Cook, Process and Environmental Technology
Dr. Ben Forward, Food, Fisheries and Aquaculture
Ross Kean, Inorganic Analytical Chemistry
Bruce Phillips, Organic Analytical Chemistry

Section Heads

Leo Cheung, Mining and Industrial Services
Thelma Green, Air Quality Services
Dr. John Macaulay, High Resolution Mass Spectrometry
John Speelman, Senior Metallurgist

BOARD OF DIRECTORS

Ken Reeder, P.Eng.

Chairman
(Past) President & CEO, Neill and Gunter Ltd., Saint John, NB

Eric Cook, P.Eng.

Executive Director / CEO, RPC, Fredericton, NB

Dr. Bev Bacon

President, RDI Strategies, Fredericton, NB

David Beattie, P.Eng.

Senior Consultant, exp.com, Fredericton, NB

Stephen Beatty, CMA

President, Integrated Project Services Inc., Shediac Bridge, NB

Lee Corey

President, Corey Nutrition Company, Fredericton. NB

Bob Crawford, P.Eng.

(Past) Vice President, NB Power, Mactaquac, NB

Doug Ettinger

President and CEO, Scotsburn Dairy Group, Scotsburn, NS

Daniel Laplante

Director of Operations, Enseignes Pattison Sign Group, Edmundston, NB

Bill Levesque

Deputy Minister, Economic Development, Fredericton, NB

Dr. Sharon McGladdery

Director, St. Andrews Biological Station, St. Andrews, NB

Michelyne Paulin

Regional Director - Atlantic
Foreign Affairs and International Trade Canada, Moncton, NB

Passion for our Community: RPC Employees Give Back

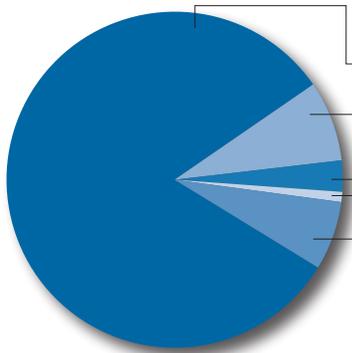
RPC has identified the United Way and its member agencies as its corporate charity and our employees have responded. In 2012-13, RPC's donations exceeded their target by a healthy margin. We also saw the number of donor participants increase. This commitment resulted in RPC employees presented with a special United Way Recognition Award. And the giving did not stop there. We also raised a substantial donation for the Fredericton Food Bank and participated in the Canadian Blood Services 'Partners For Life' program to encourage blood donations.

RPC employees are involved in many other charitable efforts that help improve our community.



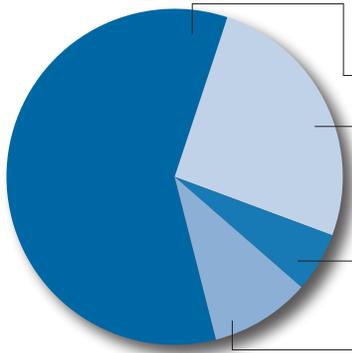
REVENUE HIGHLIGHTS

SOURCES OF REVENUE



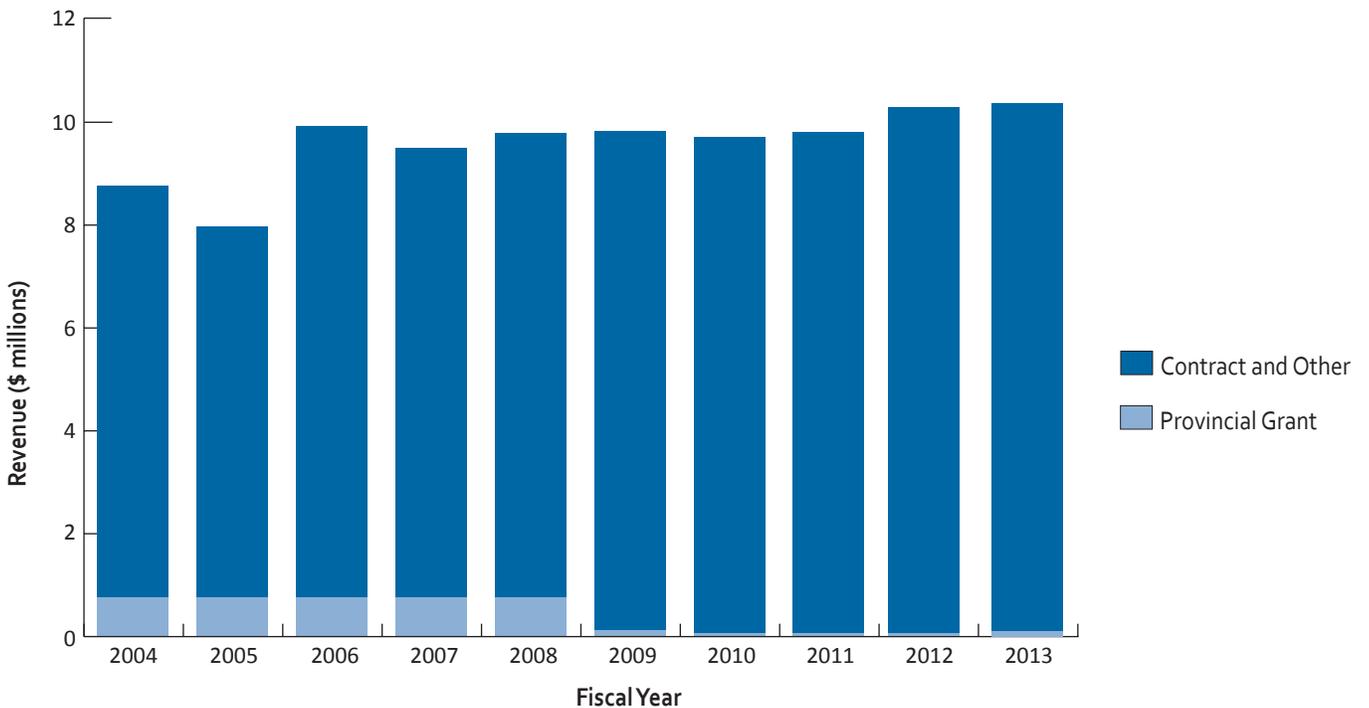
	2012-2013	2011-2012
Industry	\$ 8,420,401	\$ 8,526,678
Federal Government Contracts	798,999	776,724
Provincial Government Contracts	309,922	369,255
Provincial Government Grant	100,000	50,000
Other	683,003	547,504
Total	\$ 10,312,325	\$ 10,270,161

DISTRIBUTION OF INDUSTRIAL REVENUE



	2012-2013	2011-2012
Under 200 Employees	\$ 4,971,905	\$ 4,843,400
Over 200 Employees	2,153,300	2,497,431
Foreign Industry	483,803	484,198
Other	811,393	701,649
Total	\$ 8,420,401	\$ 8,526,678

TOTAL INCOME 2004-2013





AUDITOR GENERAL OF NEW BRUNSWICK

INDEPENDENT AUDITOR'S REPORT

To The Honourable David Alward
Premier of the Province of New Brunswick
- and -

To the Chairman and Members of the
New Brunswick Research and Productivity Council

I have audited the accompanying consolidated financial statements of the New Brunswick Research and Productivity Council, which comprise the consolidated statement of financial position as at March 31, 2013 and the consolidated statement of operations, changes in fund balances, cash flows and remeasurement gains and losses for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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, these consolidated financial statements present fairly, in all material respects, the financial position of the New Brunswick Research and Productivity Council as at March 31, 2013, and the results of its operations, its changes in fund balances, its cash flows and its remeasurement gains and losses for the year then ended in accordance with Canadian public sector accounting standards.

Kim MacPherson, CA
Auditor General

Fredericton, N. B.
October 2, 2013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 MARCH 2013

	Operating Fund	Capital Fund	March 31 2013	March 31 2012
ASSETS				
Current assets				
Cash	\$ 987,563	\$ -	\$ 987,563	\$ 858,622
Accounts receivable	1,826,352	-	1,826,352	1,632,184
Work in progress	132,342	-	132,342	180,285
Prepaid expenses	80,841	-	80,841	72,221
	3,027,098	-	3,027,098	2,743,312
Portfolio investments (Note 4)	2,332,851	5,671,045	8,003,896	7,645,309
Capital assets, net (Note 5)	-	2,863,151	2,863,151	2,808,281
	\$ 5,359,949	\$ 8,534,196	\$ 13,894,145	\$ 13,196,902
LIABILITIES AND FUND BALANCES				
Current liabilities				
Accounts payable and accrued liabilities	\$ 1,004,660	\$ -	\$ 1,004,660	\$ 972,567
Deferred revenue	295,782	-	295,782	377,686
Current portion of note payable (Note 6)	-	18,152	18,152	28,591
	1,300,442	18,152	1,318,594	1,378,844
Long term liabilities				
Accrued retirement benefits (Note 7)	1,025,200	-	1,025,200	961,100
Accrued sick pay benefits (Note 7)	71,000	-	71,000	68,200
Note payable	-	-	-	18,152
	1,096,200	-	1,096,200	1,047,452
Deferred contributions (Note 8)	-	10,403	10,403	22,108
Fund balances				
Unrestricted	2,963,307	-	2,963,307	3,536,750
Internally restricted (Note 9)	-	5,671,045	5,671,045	4,472,318
Invested in capital assets	-	2,834,596	2,834,596	2,739,430
	2,963,307	8,505,641	11,468,948	10,748,498
	\$ 5,359,949	\$ 8,534,196	\$ 13,894,145	\$ 13,196,902

Approved by the Council



Chairman



Executive Director

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

CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED 31 MARCH 2013

	2013	2012
REVENUE		
Operations	\$ 9,834,613	\$ 9,876,494
Operating grant		
Province of New Brunswick	100,000	50,000
Investment	231,204	187,744
Sundry	144,708	155,923
Gain on sale	1,800	-
	10,312,325	10,270,161
 EXPENSE		
Operations	7,021,249	7,125,982
Administration	2,175,369	2,050,942
Amortization (Note 5)	518,346	522,922
Bad debts	40,697	12,422
	9,755,661	9,712,268
 EXCESS OF REVENUE OVER EXPENSE		
	\$ 556,664	\$ 557,893

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

CONSOLIDATED STATEMENT OF REMEASUREMENT GAINS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 2013

	2013	2012
ACCUMULATED REMEASUREMENT GAINS, Beginning of year	\$ 413,393	\$ 344,979
Unrealized gains attributable to:		
Portfolio investments	183,471	36,692
Amounts reclassified to the statement of operations:		
(Gains)/Losses realized during the year	(19,685)	31,722
Change in accumulated remeasurement gains for the year	163,786	68,414
ACCUMULATED REMEASUREMENT GAINS, End of year	\$ 577,179	\$ 413,393

CONSOLIDATED STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED 31 MARCH 2013

	Operating Unrestricted	Capital Board Restricted	Capital Invested in Capital Assets	Total 2013	Total 2012
BALANCE, Beginning of year	\$ 3,536,750	\$ 4,472,318	\$ 2,739,430	\$ 10,748,498	\$ 10,122,191
Excess of revenue over expense	556,664			556,664	557,893
Change in accumulated remeasurement gains	163,786			163,786	68,414
Gain on sale	(1,800)	1,800		-	-
Acquisition of capital assets		(584,921)	584,921	-	-
Reduction in note payable	(10,439)	(18,152)	28,591	-	-
Amortization of capital assets	518,346		(518,346)	-	-
Interfund transfer (Note 9)	(1,800,000)	1,800,000		-	-
BALANCE, End of year	\$ 2,963,307	\$ 5,671,045	\$ 2,834,596	\$ 11,468,948	\$ 10,748,498

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2013

	Operating Fund	Capital Fund	2013 Total	2012 Total
CASH PROVIDED BY (USED FOR):				
Operating activities				
Excess of revenue over expense	\$ 556,664	\$ -	\$ 556,664	\$ 557,893
Amortization	518,346	-	518,346	522,922
Net change in non-cash working capital	(137,757)		(137,757)	111,621
Net cash provided by operating activities	937,253	-	937,253	1,192,436
Capital activities				
Acquisition of capital assets	-	(584,921)	(584,921)	(545,265)
Investing activities				
Purchase or transfer of portfolio investments	991,688	(1,186,488)	(194,800)	(466,596)
Financing activities				
Reduction in note payable	-	(28,591)	(28,591)	(28,591)
Interfund transfer (Note 9)	(1,800,000)	1,800,000	-	-
Net cash provided by financing activities	(1,800,000)	1,771,409	(28,591)	(28,591)
NET INCREASE IN CASH	128,941	-	128,941	151,984
Cash, Beginning of year	858,622	-	858,622	706,638
CASH, End of year	\$ 987,563	\$ -	\$ 987,563	\$ 858,622

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 MARCH 2013

1. Purpose of the organization

The New Brunswick Research and Productivity Council (the Council) is a government non-profit organization incorporated under the Research and Productivity Council Act 1962. The objectives of the Council are to promote, stimulate and expedite continuing improvement in productive efficiency and expansion in the various sectors of the New Brunswick economy. The Council provides independent research, testing and technical services to enterprises primarily within New Brunswick on a fee-for-service basis.

2. Summary of significant accounting policies

These financial statements are prepared by management in accordance with Canadian public sector accounting standards for not-for-profit organizations. A summary of the significant accounting policies used in the preparation of these financial statements are as follows:

(a) Fund accounting

Revenue and expense associated with delivery of services and administrative support are reported in the Operating Fund. The Capital Fund reports assets, liabilities, gains and expenditures related to the acquisition, disposal and financing of capital assets, as well as the amount of net assets restricted for capital purposes.

(b) Consolidation policy

These consolidated financial statements include the accounts of the Council and those of its wholly owned subsidiary, Minuvar Ltd.

(c) Revenue recognition

Revenue is determined to be earned and is recorded in the Operating Fund as work is performed. The value of work completed but not yet billed is reported as work in progress; amounts received, but for which work has not been performed, are reported as deferred revenue.

Investment income includes dividends, interest, and realized gains and losses on investments. All investment income is reported in the Operating Fund in the year it is earned.

The Council follows the deferral method of accounting for grants received for operations and specific projects. Grants to be used for restricted purposes are recognized as revenue in the period in which the related expenditures are incurred. Where a portion of a grant relates to a future period, it is deferred and recognized in the subsequent period. Unrestricted grants are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Grants approved but not received at the end of an accounting period are accrued.

(d) Capital assets

Capital assets are recorded in the Capital Fund at cost. Amortization is provided on a straight-line basis over the assets' estimated useful lives.

(e) Financial instruments

Financial instruments are contracts that establish rights and obligations to receive or deliver economic benefits. Financial assets consist of cash, accounts receivable, portfolio investments, and financial liabilities consist of accounts payable and accrued liabilities and note payable.

Portfolio investments quoted in an active market are measured at fair value. The Council's other financial instruments are measured at carrying values which are considered to approximate fair value. Financial instruments measured at fair value are classified as level 1, 2 or 3 for purposes of describing the basis of the inputs used to measure the fair values of the financial instruments in the fair value measurement category, as described below:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly or indirectly; and

Level 3 – inputs for the assets or liabilities that are not based on observable market data.

2. Summary of significant accounting policies - continued

(e) Financial instruments - continued

Unrealized gains and losses from changes in the fair value of financial instruments are recognized in the Statement of Remeasurement Gains and Losses. Upon settlement, the cumulative gain or loss is reclassified from the Statement of Remeasurement Gains and Losses to the Statement of Operations. Transaction costs for financial instruments measured at fair value are expensed. Financial assets are assessed annually to determine whether there is any objective evidence of impairment.

(f) Portfolio investments

Portfolio investments held by the Council include publicly traded short and long term fixed income securities and equity securities. Interest on fixed income securities is accrued as earned and reported on the statement of operations along with dividends and other investment income. Equity securities are classified as level 1 according to the fair value hierarchy and are reported at fair value as determined by quoted market prices on the financial statement date. Fixed income securities are classified as level 2 according to the fair value hierarchy and are reported at fair value as determined by RBC Capital Markets at the financial statement date.

(g) Pension

Full-time employees of the Council are members of the New Brunswick Public Service Superannuation Plan. The Plan is a defined benefit multi-employer plan under which contributions are made by both the Council and its employees. The employer's contributions to the plan are accounted for as a defined contribution plan. For the year ended March 31, 2013, total employer contributions were \$390,246 (2012 - \$375,370).

Pension administration services are provided by the Province of New Brunswick's Office of Human Resources at no cost to the Council.

(h) Accrued retirement benefits

Employees who began full-time employment prior to April 1, 2011 are entitled to retirement allowance benefits. The accrued liability for this retirement allowance benefit was determined by an actuarial valuation carried out as of March 31, 2012 and extrapolated to March 31, 2013.

(i) Accrued sick pay benefits

Employees are entitled to sick pay benefits which accumulate but do not vest. The accrued liability for this benefit was determined by an actuarial valuation carried out as of March 31, 2012 and extrapolated to March 31, 2013.

(j) Measurement uncertainty

The preparation of consolidated financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes.

Significant estimates included in these financial statements include: assumptions used in determining liabilities for retirement allowance and sick pay benefits; accounts receivable which are, or may become, uncollectible; the valuation of work in progress and deferred revenue; and the useful life over which capital assets are amortized.

Estimates are based on the best information available at the time of preparation of the consolidated financial statements and are reviewed annually to reflect new information. Actual results could differ from these estimates.

3. Risk management

When investing, the Council follows a conservative investment policy (Note 11) in order to mitigate financial risk. The Council has no derivative investments and has not entered into hedging transactions to manage risk.

An analysis of significant risks from the Council's financial instruments is provided below:

i) Credit risk

Credit risk is the risk that one party to a financial instrument will cause financial loss for the other party by failing to discharge an obligation. The Council manages this exposure through credit approval procedures for new customers and obtaining advanced payment from high risk customers. The Council's exposure to credit risk on its receivables is equal to \$1,826,352 at March 31, 2013.

The Council is also exposed to credit related risk in the event the counterparty to a fixed income security defaults or becomes insolvent. The Council manages this risk by dealing only with reputable banks and financial institutions and following a conservative framework governing the eligible investments, including a required credit rating of A or higher for bond issuers.

There have been no significant changes to credit risk exposure during the year.

ii) Liquidity risk

Liquidity risk is the risk of not being able to settle or meet an obligation on time or at a reasonable price. As the Council's cash and portfolio investment balance exceed its future obligations, it is not subject to significant liquidity risk.

iii) Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect future cash flows or fair values of financial instruments. The Council's investments in fixed-income securities are normally held until maturity, reducing the impact of rate fluctuations on cash flows. The fair value of these securities may vary with market rates.

iv) Currency risk

Currency risk arises on financial instruments denominated in a foreign currency. The Council has an insignificant number of transactions with customers and vendors denominated in foreign currency.

A portion of the Council's portfolio investments are equity securities denominated in USD as well as a portion of accounts receivable. The impact of a change in currency rate at March 31, 2013 would be limited to these balances:

Financial Instruments demoninated in USD	
Accounts receivable	\$ 220,828
Equity investments	470,553
	<hr/>
	\$ 691,381

A 1% change in the exchange rate would have the impact of increasing or decreasing the value of these assets by \$6,914 depending on whether the rate increases or decreases.

4. Portfolio investments

Portfolio investments in the fair value category	Fair value hierarchy level	2013	2012
Equity securities	Level 1	\$ 2,620,206	\$ 2,333,358
Fixed income securities	Level 2	5,383,690	5,311,951
		<hr/>	<hr/>
		\$ 8,003,896	\$ 7,645,309

5. Capital assets

	Amortization rates	2013			2012
		Cost	Accumulated amortization	Net book value	Net book value
Vehicle	25%	\$ 20,937	\$ 5,234	\$ 15,703	\$ -
Computer equipment	25%	1,705,490	1,641,185	64,305	54,949
Operating equipment	12.50%	10,187,875	8,819,234	1,368,641	1,296,269
Land and buildings	3%	3,132,715	1,718,213	1,414,502	1,457,063
		<u>\$ 15,047,017</u>	<u>\$ 12,183,866</u>	<u>\$ 2,863,151</u>	<u>\$ 2,808,281</u>

Amortization expense is comprised of the following amounts:

	2013	2012
Amortization of assets	\$ 530,051	\$ 543,498
Amortization of deferred contributions	(11,705)	(20,576)
	<u>\$ 518,346</u>	<u>\$ 522,922</u>

6. Note payable

	2013	2012
Atlantic Canada Opportunities Agency, interest free, payable \$7,500 quarterly through November 1, 2013	\$ 18,152	\$ 46,743
Less: current portion	(18,152)	(28,591)
	<u>\$ -</u>	<u>\$ 18,152</u>

7. Employee future benefits

(a) Retirement allowances

Those employees who began full-time employment prior to April 1, 2011 are entitled to payment of a retirement allowance based upon one week's pay for each full year of service. The retirement allowance is paid upon retirement after the age of 55, at the employee's final rate of pay. An actuarial valuation has been completed and forms the basis for the estimated liability reported in these financial statements.

(b) Sick Pay Benefits

Employees working full-time accumulate sick pay benefits that accumulate at 1.25 days per month and if unused can be carried forward to a maximum of 240 days. An actuarial valuation has been completed and forms the basis for the estimated liability reported in these financial statements.

Significant economic and demographic assumptions used in the actuarial valuations are:

Discount rate	3.5%
Salary increases	3.5%
Retirement age	Age 60
Probability of excess sick leave	6.5%

	2013		2012	
	Retirement Benefits	Sick Pay Benefits	Retirement Benefits	Sick Pay Benefits
Accrued benefit obligation, April 1	\$ 1,044,500	\$ 74,000	\$ 904,400	\$ 66,400
Current service cost	65,200	4,900	57,900	5,400
Interest on obligation	36,900	2,600	41,500	3,000
Benefit payments	(43,200)	(5,100)	(18,400)	(4,800)
Actuarial loss	-	-	59,100	4,000
Accrued benefit obligation, March 31	1,103,400	76,400	1,044,500	74,000
Unamortized actuarial loss	(78,200)	(5,400)	(83,400)	(5,800)
Accrued benefit liability at March 31	\$ 1,025,200	\$ 71,000	\$ 961,100	\$ 68,200

8. Deferred contributions

Deferred contributions reported in the Capital Fund represent the unamortized portion of external contributions received towards the cost of specific capital assets. Amortization of deferred contributions is calculated at the same rate as amortization of the assets to which they relate, and is netted with amortization expense for presentation purposes.

The changes for the year in the deferred contributions balance reported in the Capital Fund are as follows:

	2013	2012
Deferred contributions at 1 April	\$ 22,108	\$ 42,684
Amortization of deferred contributions	(11,705)	(20,576)
Deferred contributions at 31 March	\$ 10,403	\$ 22,108

9. Inter-fund transfers and internally restricted fund balances

The Council's board of directors has internally restricted resources amounting to \$5,671,045 as at March 31, 2013 (2012 - \$4,472,318). This internally restricted amount is intended for the acquisition of capital assets and payment of capital obligations and is not available for other purposes without the approval of the board of directors. This amount includes the March 31, 2013 transfer of \$1,800,000 from the Operating Fund to the Capital Fund (2012 - \$600,000).

10 Related party transactions

During the year the Council provided services to government departments and Crown agencies of the Province of New Brunswick. The Council provides these services under its normal terms and conditions.

	2013	2012
Revenue from services provided for the year	\$ 868,781	\$ 1,176,717
Accounts receivable at March 31	\$ 45,543	\$ 239,939

11. Management of fund balances

The Council's objective in managing its fund balances is to remain a sustainable operation while fulfilling its overall mandate to provide independent research, testing and technical services organization. The Council achieves this objective through strong day-to-day management of cash flows and by regularly monitoring revenues and expenditures against annual operating and capital budgets.

The Council's investment policy has a target investment allocation as follows:

Cash and equivalents	10%
Fixed Income	65%
Equity	25%

The objective of the portfolio is to optimize the quality long-term income and growth with a conservative risk framework. Within the overall objective the portfolio should seek to earn a return equal to the risk free rate plus inflation over the long run.

12. Comparative figures

Comparative figures have been reclassified or restated to be consistent with current year presentation.