



# GROWTH

**ANNUAL REPORT**

2016 - 2017

# STRATEGIC PLAN 2015-2020

## RPC'S VISION STATEMENT

The Research and Productivity Council (RPC) will excel in scientific services and 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 business and industry to develop and apply innovative technology, and to provide specialized laboratory-based technical services.

## CORPORATE VALUES

RPC conducts business with the following core values:

**Safety:** RPC is committed to providing a safe work environment.

**Quality:** RPC is committed to quality in the work we perform.

**Service:** RPC is client-focused and committed to assisting clients to the best of our ability.

**Respect:** RPC is committed to treating clients, employees, and suppliers with respect and fairness.

## STRATEGIC CORPORATE OBJECTIVES

Strategic objectives have been derived from the mission statement and reflects 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 provides direction for the organization and has been endorsed by RPC's board of directors.

The strategic plan provides an overview of process within the context of required inputs and anticipated results. Organizational objectives, and the rationale behind them, evaluation metrics and preliminary actions are provided to bring clarity and actionability to the plan. In keeping with best practice, the objectives have been developed to be specific, measurable, actionable, realistic and timely (SMART).

### Revitalization:

#### Position the Organization to Serve its Mandate

RPC's mandate is to be a leading authority and service provider for scientific services and research and development. To achieve this, we must have qualified people, leading edge equipment, and appropriate facilities.

RPC will continue to strategically invest in human capital to support organizational succession planning and strategic growth, both in current areas of expertise and to capitalize on emerging opportunities.

RPC is focussed on the future. The organization's revitalization plan is focussed on both the present and the future.

First, renewal of existing physical assets, meaning increased annual capital spending on equipment replacement and facilities maintenance. Much of the current building infrastructure is approaching 50 years of operation and requires increased attention to ensure the physical environment supports the level of excellence. RPC will commit up to \$1 million annually for capital improvements.

RPC will also be pursuing a revitalization project. This project will focus on increasing both our capacity and capability. Growth in our existing lines of business require more physical space and new facilities are required to position us to take advantage of new and emerging opportunities. The last significant growth investment was a \$20 million revitalization project during 1987-1990; we anticipate a project of a similar magnitude.

### Pursue Growth Opportunities

RPC's services will continue to evolve to remain relevant to industry.

As a provincial research organization (PRO), growth includes expansion of service offerings, modernization of methods, obtaining accreditations, acquisition of expertise, acquiring of modern instruments and equipment, and developing appropriate labs and facilities. At RPC, growth is pursued with the objectives of organizational sustainability and relevance achieved through excellent client service.

Three types of growth will be considered:

- a. Organic Growth: Our primary focus will be on core growth that involves expanding service offerings, gaining new accreditations, or offering a new service line to increase our capacity and better serve our present and future clients.
- b. Acquisition: These are rare opportunities that involve a chance to acquire a private or perhaps public organization that fits with RPC's mandate, increasing capacity and better serving our present and future clients.
- c. Expansion: This would be the opening of a new site or a new facility to support growth, increasing capacity and better serving our present and future clients.

### Communications and Business Development

Increasing awareness of RPC, its people and its work, remains a priority. As with many research and development organizations, RPC is challenged to promote its services and celebrate its success while respecting client confidentiality and the proprietary nature of much of its work.

RPC is committed to the engagement of our employees through a series of focussed activities. Major milestones, achievements and long service are recognized and celebrated. Town Hall meetings help to ensure our people interact with one another, learn about our organization and engage in conversations that spur ideas and innovation. Social media and the intranet are used to provide updates.

RPC recognizes that achievement of its growth objectives requires a focus on business development. While RPC has relied upon a more organic expansion of business in the past, more focus is being placed on purposeful evaluation and targeting of business development opportunities that take advantage of current expertise and identify new areas for growth.

Strategic communications are key to our future. To support both internal and external communication, improvements will

be made to our website, social media presence, and internal communications activities. Strategic tradeshow participation and industry association involvement will continue. New initiatives may include sales and communications training, acquisition of software tools such as customer relation management, expanded social media use, and a competitive intelligence initiative.

### Operational Excellence

RPC will continue to develop business systems and processes that enable the organization and its people to operate efficiently and effectively. Given the current economic climate and Government austerity programs, the organization will continue to make business decisions focussed on financial sustainability funded from operations.

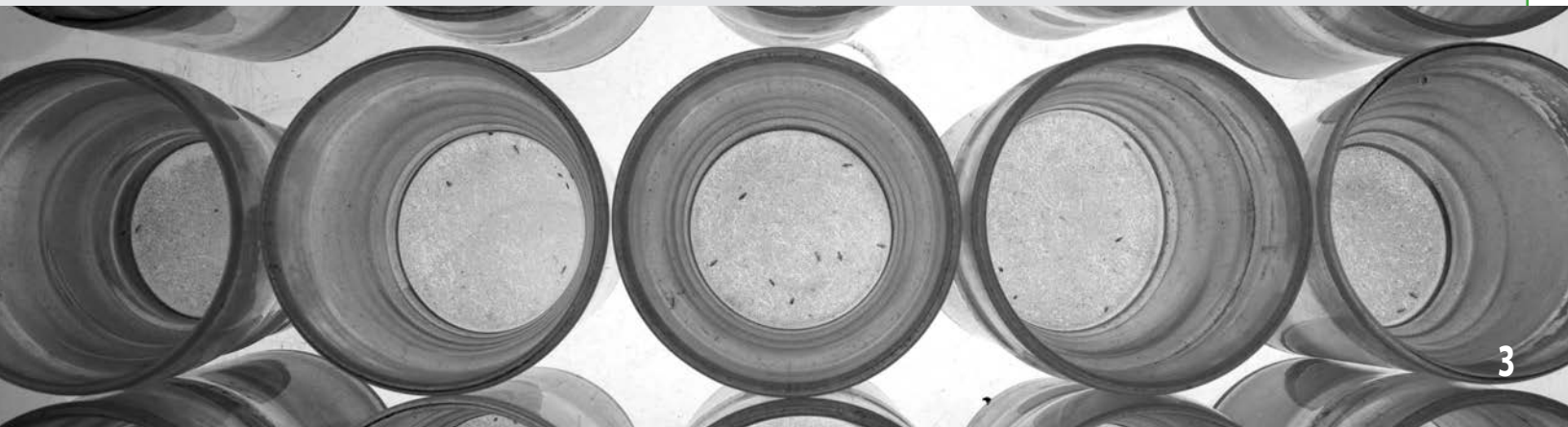
To support excellence in operations, RPC will assess and review ERP/LIMS. The organization will continue work on the development and advancement of a facility maintenance plan that supports innovation, growth and continuous improvement of quality systems. Investment in the development of our people will continue as will support of a positive work environment and safety culture.

At the policy level RPC will continue to support Board development activities. These activities will focus on strengthening an understanding of the organization and its relationship to government, governance and fiduciary responsibilities.

### Corporate Social Responsibility

RPC will build on its well-earned reputation as a good corporate citizen, giving back to the community and complying with laws and regulations. Our goal is to have a positive impact on the community beyond our core operations.

Initiatives will include meeting our United Way contribution goals, sustaining fundraising efforts for food banks, encouraging employee-led charity initiatives, and continuing to expand our recycling initiatives.



# FROM THE CHAIRMAN AND EXECUTIVE DIRECTOR

**This past year**, RPC saw significant growth in sales revenue from new clients and increased activity with existing clients. This growth was supported by the hiring of new employees creating increased capacity and capability. Overall, it was a year of remarkable progress and one that contributes to the future success of RPC.

Our sales revenue grew to exceed \$11.2 million, a 15% increase from the prior year. We invested a total of \$2.3 million in capital improvements, \$1.1 million of which was accessed through funding agencies. RPC's client base grew by a staggering 9%. RPC recognized a positive net income of \$83,000, after allowing for the restructuring transaction and purchase of assets (see *Consolidated Statement of Operations*, p. 14). This is exceptional performance during a period of significant change and growth.

A significant accomplishment was the successful integration of the provincial dairy, environment and fish health services as part of the Strategic Program Review (SPR) project. The dairy lab testing is new to RPC and involved new processes, expansion of our food chemistry lab, and transfer of accreditation for these services to RPC. RPC provided fish health and drinking water analyses in the past, however, there were many changes needed to set up new clients, support new reporting requirements and other logistics. RPC also took ownership of the St. George lab facility and began offering fish health services from that location.

Another accomplishment was a new service line for accredited toxicity testing. This required lab space to be renovated, staff to be trained, and accreditation obtained. Other renovations included expansion of our shipping/receiving area and construction of the innovation space (see *New Spaces: RPC's Innovation Lab*, p. 5).

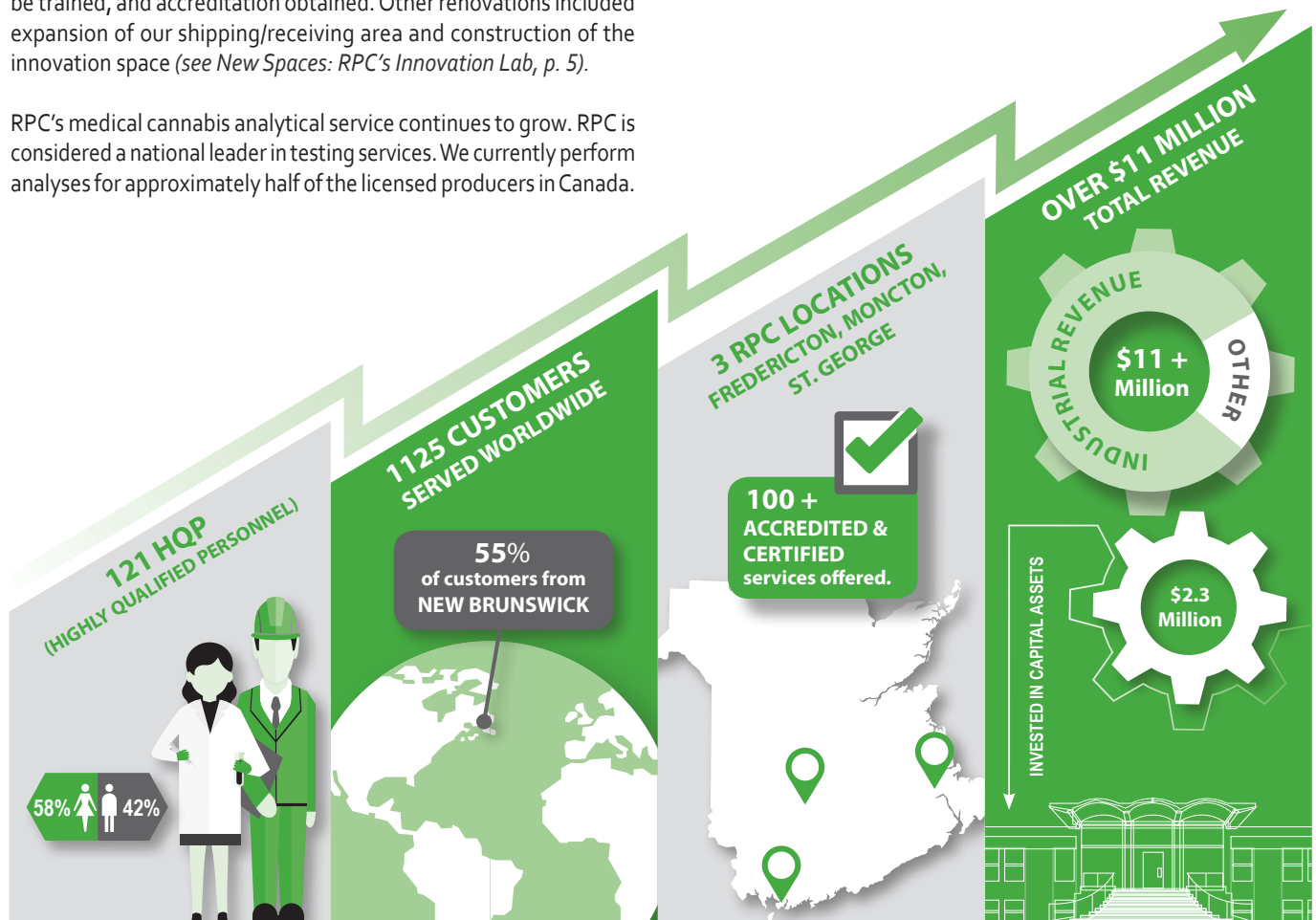
RPC's medical cannabis analytical service continues to grow. RPC is considered a national leader in testing services. We currently perform analyses for approximately half of the licensed producers in Canada.

The testing involves organic chemistry, inorganic chemistry and microbiology services. Our analytical expertise has led to research inquiries in a variety of areas from genetics to automation. With the announcement made for legalization of cannabis, we anticipate significant growth in this industry and are making plans to increase capacity.

RPC's automation services are another area of notable growth. Projects have involved the integration of technologies including robotics, machine vision, 3D printing and the Internet of Things (IoT). We foresee significant growth in this sector and have identified it as a core focus in our expansion planning (see *Industry 4.0: Helping Manufacturers to Compete*, p. 9).

We were proud to present the 2017 merit award to the team that led the development of breakthrough clean technology for rubber devulcanization (see *Rubreco - Rubber Devulcanization Technology*, p. 8). The project was a finalist for environmental achievement at the Tire Tech Expo in Germany, a significant accomplishment for our organization and recognition of the innovative work being done at RPC.

Several board members completed their terms during the past year and new members were appointed (see *Thank You for your Service and RPC Welcomes New Chairperson and Directors*, p. 10). Another notable change was the modernization of the RPC Act, updating it to more modern language and to designate RPC as a Part IV crown corporation.



## THE OUTLOOK

RPC anticipates continued growth in our client base, revenues, team and capabilities.

Renewal activities will continue to help RPC meet and grow client demand. Growth objectives will be supported through plans for future expansion. The last major construction at RPC was completed in 1990.

Regional economic growth continues to be marginally positive (<1%), however RPC has outperformed with 15% revenue growth by adding new services and addressing new markets. Many of these new services are described in the pages that follow. In the coming year, we intend to add to our services and build on our new capabilities.

## NOTES OF APPRECIATION

We sincerely appreciate the loyalty of our clients, past and present. Many of our clients have been with us since 1962, a fact that we are most proud of.

We are grateful for the productive relationships we continue to enjoy with agencies that are committed to advancing the New Brunswick economy including the Regional Development Corporation, the New Brunswick Jobs Board Secretariat, the New Brunswick Innovation Foundation (NBIF), Opportunities New Brunswick (ONB), the Industrial Research Assistance Program (IRAP), and the Atlantic Canada Opportunities Agency (ACOA).

The guidance, leadership and support from our board of directors is invaluable. Special thanks to our former Chairperson, Lee Corey, and board members Dr. David Burns and Wayne Arsenault who completed their terms during the past year. Your guidance and advice has positioned RPC well for the future. Thank you to our new members Kelli Simmonds, Jean Finn, Annette Comeau, Meaghan Seagrave, Irene McCardle, Dr. Levi Hargrove, and David Rogers. We welcome your energy, passion and enthusiasm. We look forward to what the future has to bring.

Finally, we note the outstanding commitment of RPC employees, including the 25 new employees that were added during the year. The dedication to customer service and science and engineering excellence is exceptional and key to RPC's success. Thank you.

In closing, RPC is in a growth mode that is leading us to new success levels. There is potential for continued growth and success and we are committed to achieve it.

Dr. Shelley Rinehart  
Chairperson

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

## NEW SPACES: RPC's Innovation Lab

RPC has made excellent use of its newly renovated innovation lab (i-lab). The i-lab is a bright, modern space with the flexibility to be configured as a board room, theater style seating, reception space or casual seating for coffee conversations. The space is in constant use hosting town hall meetings, annual merit and service awards ceremony, board meetings, client meetings, strategy sessions, and other business meetings.

The space is also used for a variety of activities including noontime yoga, training sessions and demonstrations.



# ANNUAL PLAN GOALS FOR 2016-2017

RPC's Annual Plan for 2016-2017 is a subsidiary document to the Strategic Plan 2015-2020. The Annual Plan cross references the strategic corporate objectives and is endorsed by the board of directors.

Progress achieved regarding *Corporate Priorities* identified in the 2016-2017 Annual Plan is summarized below.

## I. Produce a positive net income, retain work in New Brunswick.

This objective was fully achieved. Financially, RPC finished with a positive net income, surpassing our targeted net income (see *Consolidated Statement of Operations*, p. 14). We continued to grow capacity, market share and capability of existing and new service lines. The result was an impressive 15% increase, or \$1.4 million, in operational revenue to \$11.3 million.

The Revenue Sources Profile (Chart 1) illustrates that the bulk of RPC's sales revenue (84%) continues to come from industry. Revenue from federal contracts was just over 7%, our second most significant source of revenue. Revenue from the provincial government rebounded to 7%, a welcome increase since hovering around the 3% range for the last several decades.

The Clients by Location (Chart 2), illustrates that 619 of RPC's 1125 clients (55%) were from New Brunswick.

As illustrated in Chart 3, Clients Served by Revenue, RPC exported nearly \$5.4 million of services from the province, helping to create and maintain employment. This is up from \$4.8 million last year and accounts for a good portion of sales revenue growth. International exports were \$670,000, a 50% improvement over last year but short of the typical \$1 million when the mining sector is healthy. Of note is the \$5.8 million in sales to New Brunswick clients, just over half of our total revenue.

We also helped to retain work in New Brunswick through growing market share and by introducing new services, such as toxicity testing, to provide a local source of analyses. As detailed above and in the financial statements presented in this report, the objective of producing a profitable result was fulfilled.

## II. Progress Renewal Plan, Develop and Socialize Revitalization Plan.

Excellent progress was made on both these initiatives.

RPC invested over \$2.3 million in capital expenditures, which included significant facility improvements (refer to *Growing our Analytical Services: Expanding Capacity and Capabilities* p. 7), new instrumentation and maintenance. This was aided with project support from funding agencies totaling \$1.1 million.

CHART 1: REVENUE SOURCES PROFILE

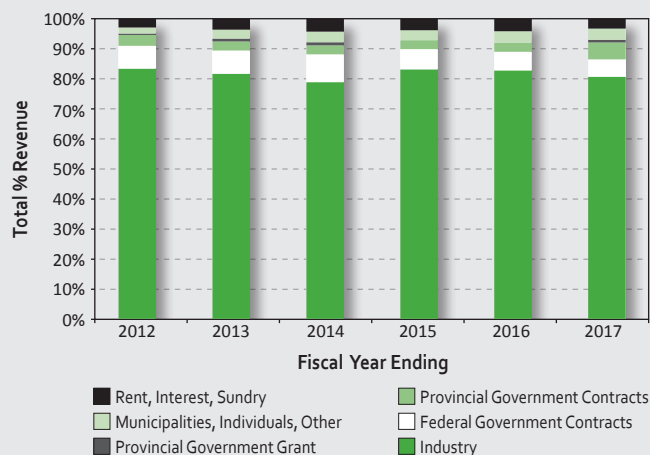


CHART 2: CLIENTS BY LOCATION

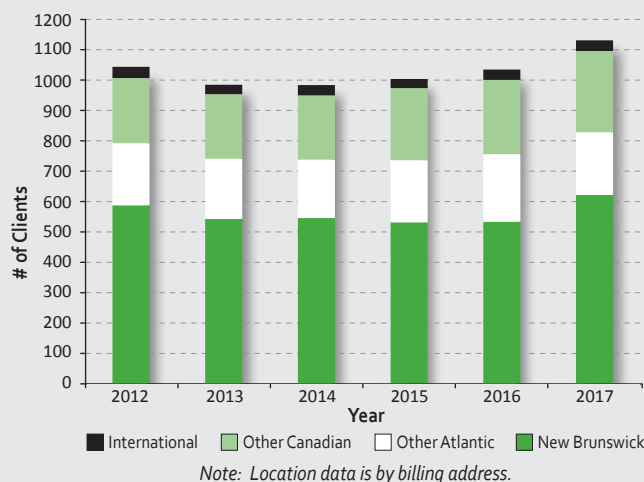
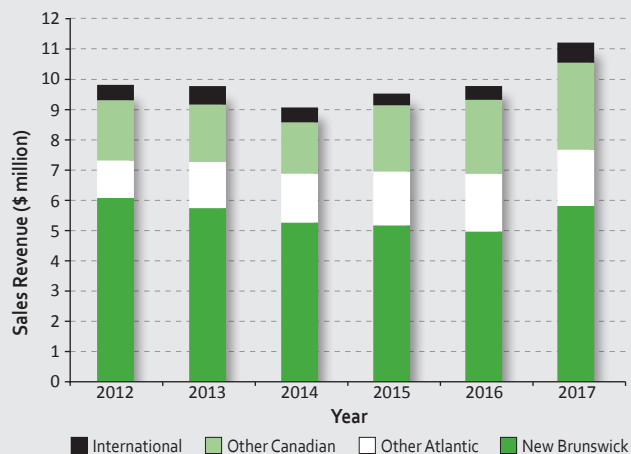


CHART 3: CLIENTS SERVED BY REVENUE



A revitalization concept was developed and socialized with municipal, provincial and federal representatives. The focus areas of the plan are world class analytical services, technology driven product/process engineering (see *Industry 4.0*, p. 9) and next generation biotech with the foundation of world class IT and business systems. The concept was well received and we were encouraged to proceed to a detailed proposal.

### III. Grow RPC's Business through Strategic Program Review (SPR) and Acquisition.

Both these objectives were successfully completed during the year.

SPR resulted in RPC delivering the services previously offered by the provincial dairy, fish health and environment labs. The effort involved expansion of RPC's facilities (refer to *Growing our Analytical Services: Expanding Capacity and Capabilities on this page*), adding 10 employees, transferring accreditations, and many other logistical tasks. The effort went quite smoothly with no interruptions in service, however, it involved a significant amount of work from all areas of RPC including safety, quality, IT, accounting, purchasing, shipping receiving, and maintenance.

RPC also completed the acquisition of a toxicity lab and successfully obtained accreditation for a new lab constructed within RPC's Fredericton facility. This added to RPC's service offerings, complementing our existing offerings. It also helped to retain this capability within New Brunswick, the only accredited toxicity service in the province.

### IV. Operations and Management.

Progress in operations and management included the major renovations described above as well as the initial investigation of a Laboratory Information Management System (LIMS) and an Enterprise Resource Planning (ERP) product. Both systems are due for upgrade or replacement. Since these are essential to RPC's operations, it is a major project with significant cost and will form part of our expansion plan.

RPC also made improvements in its security with new hardware and increased limitations on building access.

Finally, RPC continued its community efforts with the United Way Campaign as our primary focus and many other employee-led charitable efforts such as support of the food bank.



## GROWING OUR ANALYTICAL SERVICES:

### Expanding Capacity and Capabilities

RPC is constantly adding to its analytical capabilities and in 2016-2017 RPC made significant additions.

As part of the Strategic Program Review (SPR), RPC began offering fish health services at the St. George facilities. RPC has been an industry leader in fish health for several decades. The St. George lab provides a new location for fish health services with the opportunity for growth with other service offerings.

Another outcome of SPR is that RPC began offering accredited milk testing services. This is a new service line for RPC. To accommodate the service, RPC expanded and renovated our food chemistry lab.

In addition to the above, RPC began delivering the drinking water testing services on behalf of the provincial government. Some of service was moved to our Moncton lab and others are offered from our Fredericton lab. RPC expanded and renovated our Fredericton microbiology lab to accommodate the additional sample volume.

Another significant change was the acquisition of an aquatic toxicity testing service. RPC constructed a new toxicity lab at its Fredericton location and began offering accredited toxicity services in 2016.

The above highlights one new facility and three significant lab upgrades. Expansion of our shipping receiving area was also completed to accommodate sample volume increases. These changes contribute to the comprehensive analytical services offered by RPC.



# RPC EMPLOYEES

## 2016-2017 RPC MERIT AWARD

### Ruberco - Rubber Devulcanization Technology

The 2017 RPC Merit Award was presented to the team working on the development of rubber devulcanization technology with Rubreco. The project began with an independent evaluation of Rubreco's patent to devulcanize rubbers from the tire industry and progressed to bench top testing, proof of concept, through to development of a full-scale production unit and optimization. Rubreco has a series of eight patents resulting from the work.

The Rubreco technology takes crumb rubber from car tires, truck tires, and tire liners, and devulcanizes it in the Rubreco reactor using only water as a solvent. The devulcanized rubber can then be used to supplement new rubber. This is clean technology that is both environmentally friendly and economical. This breakthrough innovation is an environmentally friendly solution for the significant used-tire challenge.



**2016-2017 Merit Award Team Members (from left to right):**  
Back: Andrew Mullin, Keith McLellan, Darren Tarr, Alex Kyle, Matthew Ness, Brian Bell, Leo Cheung  
Front: Neri Botha, Sandi Walker, Jodi Buckingham, Katie Cogle





## 2016-2017 EMPLOYEE CAREER MILESTONES

Each year, RPC recognizes employee service milestones for 5-year increments.

<b>5 Years</b>	Diane Botelho April Boudreau Melanie Dargavel Nadine Godin Jennifer Randall
<b>10 Years</b>	Corrie Mastson Ryan Tarr
<b>15 Years</b>	Brannen Burhoe Steven Davenport Jill Hay Nikki Layton
<b>20 Years</b>	Peter Crowhurst Melanie Lalonde
<b>25 Years</b>	Susi Chamberlain Leo Cheung Brenda Gould Kent Walsh
<b>30 Years</b>	Cathy Jensen Sandra McDonough
<b>35 Years</b>	Tim Doherty Sandi Walker

## RPC SENIOR MANAGEMENT TEAM

(as of June 1<sup>st</sup>, 2017)

### Executive Management

Eric Cook, Executive Director/CEO  
Adele Levesque, Chief Financial Officer  
Steve Holmes, Chief Operating Officer

### Department Heads

John Aikens, Engineering Services  
Dr. Ben Forward, Food, Fisheries and Aquaculture  
Ross Kean, Inorganic Analytical Services  
Bruce Phillips, Organic Analytical Services  
Dr. Diane Botelho, Air Quality Services  
Leo Cheung, Minerals and Industrial Services



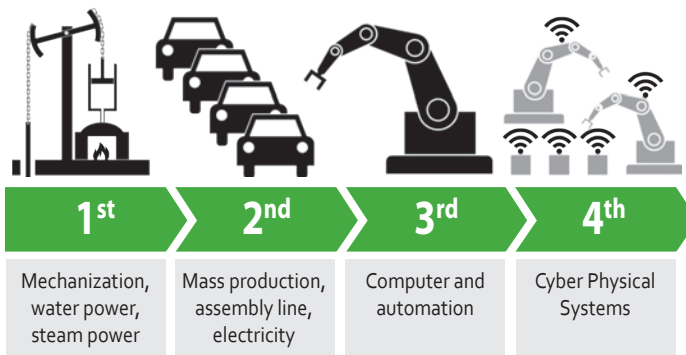
## INDUSTRY 4.0: Helping Manufacturers to Compete

Industry 4.0 is the next phase of the industrial revolution. The first phase of the revolution involved mechanization, water and steam power over a period in the late 1700's through to the later 1800's. Industry 2.0 was born with mass production, electrification and assembly lines, the third phase started in the 1970s with computerization and automation. We are currently entering the 4th phase, digitization.

Digitization allows for smart factories, allowing business to be more agile, offer more personalized products, and make significant productivity and efficiency improvements. The internet, wireless sensors and software are primary tools of digitization.

RPC is building capabilities to facilitate Industry 4.0. Our automation lab has been equipped with robots, machine vision cameras, specialized lighting and conveyors, control systems and sensors. We incorporate solid modelling and 3D printing into our design processes. We are developing products that are connected to the internet (Internet of Things or IoT). We are collecting and monitoring data to improve processes. These are some of the fundamental building blocks of Industry 4.0 and we are not stopping there. RPC plans to continue investing and developing our Industry 4.0 skills and equipment.

If you are ready to make the jump to Industry 4.0, RPC can help.



# BOARD OF DIRECTORS (as of June 1<sup>st</sup>, 2017)

## **Dr. Shelley Rinehart**

Chairperson  
Director MBA Program, UNB Saint John

## **Jean Boudreau, P.Eng.**

Senior Transportation Engineer, GEMTEC Ltd.

## **Annette Comeau**

CEO, LearnSphere

## **Jean Finn**

Deputy Minister, Agriculture, Aquaculture and Fisheries

## **Janet Gagnon**

(Retired) Vice President, ACOA New Brunswick

## **Dr. Levi Hargrove**

Director & Assistant Professor, Center for Bionic Medicine,  
Northwestern University

## **Jeff Jennings**

Owner, Strategic Direction

## **Bernard Morin**

President, Thermopak

## **Karen Murdoch**

Director of International Business and Entrepreneurship Centre,  
UNB

## **Irene McCardle, CPA, CMA, CFP**

Irene McCardle Accounting

## **David Rogers**

Vice President Global Technical Services, McCain Foods Corporate

## **Meaghan Seagrave**

Executive Director, BioNB

## **Kelli Simmonds**

Deputy Minister, Environment and Local Government

## **Tracy Lean**

Corporate Secretary

## **Adele Levesque**

Treasurer

## RPC WELCOMES NEW CHAIRPERSON AND DIRECTORS

RPC welcomed seven new directors, including Dr. Shelley Rinehart, of the University of New Brunswick, Saint John who became RPC's 6th Chairperson. Dr. Rinehart is an accomplished academic and community leader with public and private board experience. Other appointments included Kelli Simmonds, Environment and Local Government, Jean Finn, Agriculture, Aquaculture and Fisheries, Annette Comeau, LearnSphere, Meaghan Seagrave, BioNB, Irene McCardle, Public Accountant, Dr. Levi Hargrove, Northwestern University, and David Rogers, McCain Foods. Our board members bring significant experience, knowledge and skills to the table.

This diverse, and accomplished group of professionals is united by their passion for RPC.



*Back (L-R): Bernard Morin, Eric Cook, Jeff Jennings,  
Dr. Shelley Rinehart, Annette Comeau  
Front (L-R): Meaghan Seagrave & Janet Gagnon*

## THANK YOU FOR YOUR SERVICE

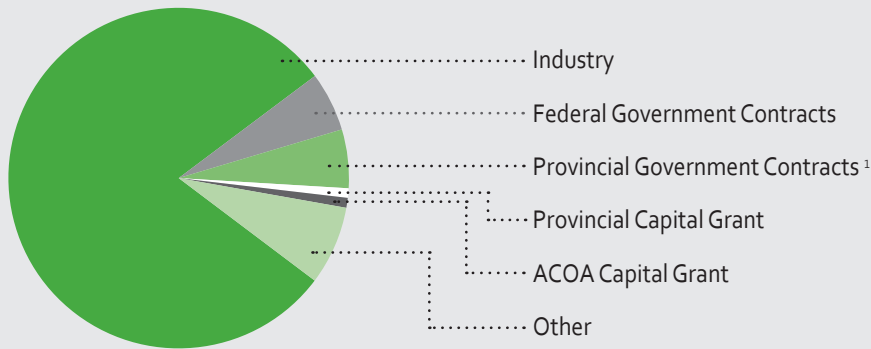
RPC Directors volunteer their time to provide guidance, expertise and oversight to RPC. During the past year, several board members completed their terms. This included RPC's Chairperson, Lee Corey, and directors Wayne Arsenault, and Dr. David Burns.

RPC benefits from the guidance and support of its board. For example, the board, with the leadership of Mr. Corey, encouraged RPC to pursue a growth agenda, an ambitious effort to increase capital investment and develop a revitalization plan.

Thank you to Lee, Wayne and David for your commitment, your passion and your leadership.

# REVENUE HIGHLIGHTS

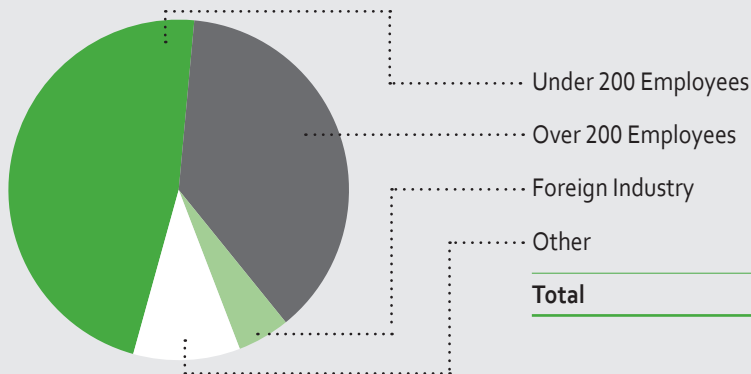
## SOURCES OF REVENUE



	2016-2017	2015-2016
Industry	\$ 9,506,973	\$ 8,498,320
Federal Government Contracts	672,825	636,379
Provincial Government Contracts <sup>1</sup>	665,925	313,918
Provincial Capital Grant	107,692	34,409
ACOA Capital Grant	112,500	62,394
Other	894,836	818,932
<b>Total</b>	<b>\$ 11,960,752</b>	<b>\$ 10,364,352</b>

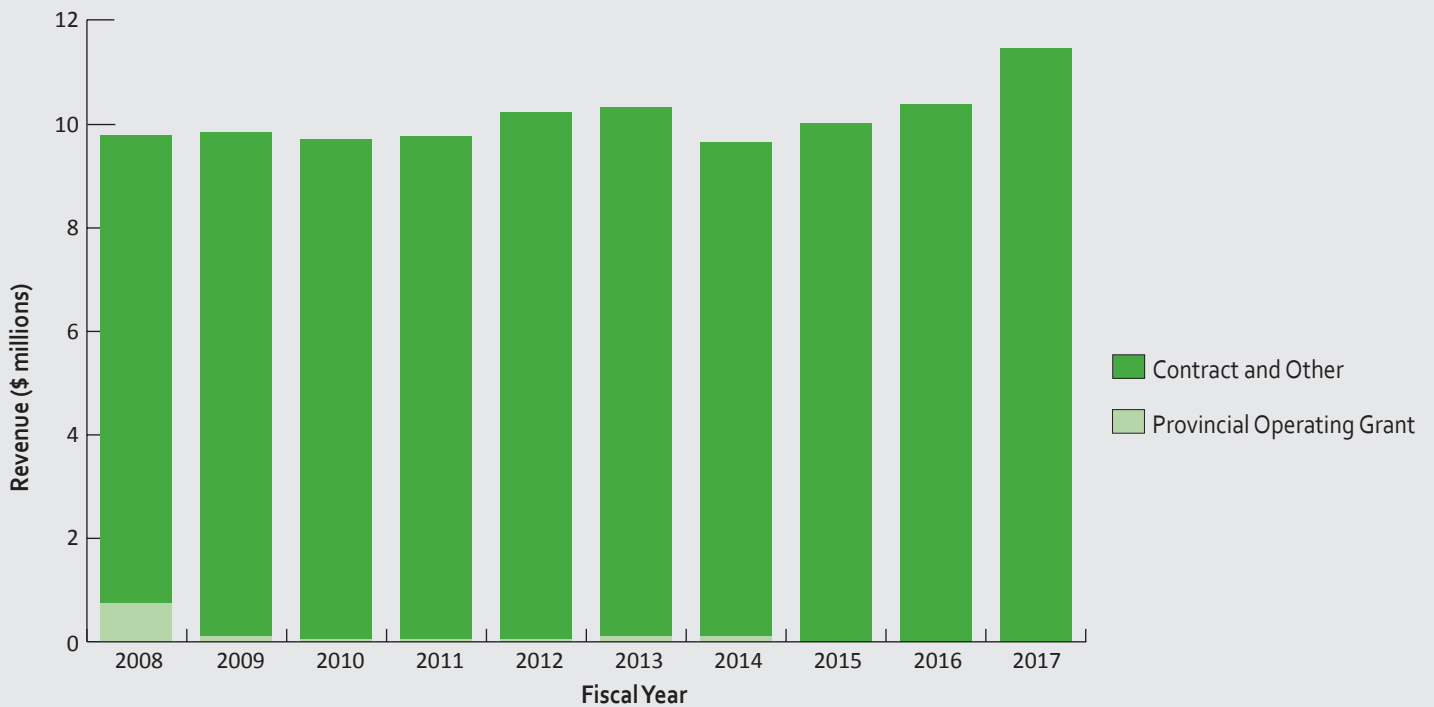
<sup>1</sup> Excludes provincial crown corporations such as NB Power.

## DISTRIBUTION OF INDUSTRIAL REVENUE



	2016-2017	2015-2016
Under 200 Employees	\$ 4,483,187	\$ 4,955,123
Over 200 Employees	3,585,529	2,389,692
Foreign Industry	473,636	336,239
Other	964,621	817,265
<b>Total</b>	<b>\$ 9,506,973</b>	<b>\$ 8,498,320</b>

## TOTAL INCOME 2008 - 2017





KPMG LLP  
Frederick Square  
700-77 Westmorland Street  
Fredericton NB E3B 6Z3  
Telephone (506) 452-8000  
Fax (506) 450-0072

One Factory Lane  
PO Box 827  
Moncton NB E1C 8N6  
Telephone (506) 856-4400  
Fax (506) 856-4499

133 Prince William Street  
PO Box 2388 Stn Main  
Saint John NB E2L 3V6  
Telephone (506) 634-1000  
Fax (506) 633-8828

## INDEPENDENT AUDITORS' REPORT

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

We 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, 2017, the consolidated statements of operations, remeasurement gains and losses, changes in net assets and cash flows for the year then ended, and notes, comprising 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an 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 our 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, we consider 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the New Brunswick Research and Productivity Council as at March 31, 2017, and its consolidated results of operations, its consolidated remeasurement gains and losses, its consolidated changes in net assets and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Professional Accountants  
June 27, 2017  
Fredericton, Canada

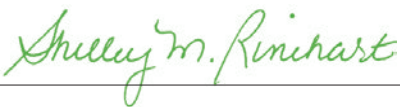
# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## MARCH 31, 2017

ASSETS	2017	2016
Current assets		
Cash	\$ 936,908	\$ 1,082,751
Accounts receivable	2,972,944	1,784,487
Work in progress	270,500	193,148
Prepaid expenses	118,262	93,450
	4,298,614	3,153,836
Investments (Note 4)	7,210,390	7,958,031
Capital assets, net (Note 5)	7,091,441	3,775,474
	\$ 18,600,445	\$ 14,887,341
<b>LIABILITIES, DEFERRED CONTRIBUTIONS AND NET ASSETS</b>		
Current liabilities		
Line of credit (Note 6)	\$ 770,000	\$ -
Accounts payable and accrued liabilities	1,167,890	959,470
Deferred revenue	144,982	236,673
	2,082,872	1,196,143
Deferred capital contributions (Note 7)	1,466,768	542,278
Employee future benefits (Note 8)	1,181,200	1,102,000
	2,647,968	1,644,278
Net assets		
Unrestricted	1,073,887	1,642,679
Internally restricted (Note 9)	7,171,045	7,171,045
Invested in capital assets	5,624,673	3,233,196
	13,869,605	12,046,920
	\$ 18,600,445	\$ 14,887,341

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

Approved by the Council



Chairperson



Executive Director

## CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED MARCH 31, 2017

	2017	2016
<b>REVENUE</b>		
Operations	\$ 11,285,519	\$ 9,837,310
Restructuring transaction (Note 13)	1,825,506	-
Investment	391,702	324,343
Sundry	63,339	105,896
Amortization of deferred capital contributions	220,192	96,803
	13,786,258	10,364,352
<b>EXPENSE (Note 10)</b>		
Operations	8,425,157	7,805,636
Administration	3,019,991	1,961,651
Amortization of capital assets	792,287	586,838
Bad debts	(21,106)	1,716
	12,216,329	10,355,841
<b>EXCESS OF REVENUE OVER EXPENSE</b>	\$ 1,569,929	\$ 8,511

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

## CONSOLIDATED STATEMENT OF REMEASUREMENT GAINS AND LOSSES FOR THE YEAR ENDED MARCH 31, 2017

	2017	2016
<b>ACCUMULATED REMEASUREMENT GAINS, Beginning of year</b>	\$ 1,090,501	\$ 1,255,765
Unrealized gains attributable to:		
Foreign exchange	112,683	68,792
Investments	291,466	(241,145)
Amounts reclassified to the statement of operations:		
(Gains) losses realized during the year	(124,837)	4,192
Foreign exchange	(26,556)	2,897
Change in accumulated remeasurement gains (losses) for the year	252,756	(165,264)
<b>ACCUMULATED REMEASUREMENT GAINS, End of year</b>	\$ 1,343,257	\$ 1,090,501

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

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED MARCH 31, 2017

	Unrestricted	Internally Restricted	Invested in Capital Assets	Total 2017	Total 2016
<b>BALANCE, Beginning of year</b>	\$ 1,642,679	\$ 7,171,045	\$ 3,233,196	\$ 12,046,920	\$ 12,203,673
Excess of revenue over expense	1,569,929	-	-	1,569,929	8,511
Assets received in restructuring transaction (Note 13)	(1,825,506)	-	1,825,506	-	-
Change in accumulated remeasurement gains (losses)	252,756	-	-	252,756	(165,264)
Purchase of capital assets	(2,282,748)	-	2,282,748	-	-
Amounts funded by capital contributions	1,144,682	-	(1,144,682)	-	-
Amortization of capital assets	792,287	-	(792,287)	-	-
Amortization of deferred capital contributions	(220,192)	-	220,192	-	-
<b>BALANCE, End of year</b>	<b>\$ 1,073,887</b>	<b>\$ 7,171,045</b>	<b>\$ 5,624,673</b>	<b>\$ 13,869,605</b>	<b>\$ 12,046,920</b>

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

# CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31, 2017

	2017	2016
<b>CASH PROVIDED BY (USED FOR):</b>		
Operating activities		
Excess of revenue over expense	\$ 1,569,929	\$ 8,511
Items not involving cash:		
Amortization of capital assets	792,287	586,838
Amortization of deferred capital contributions	(220,192)	(96,803)
Assets received in restructuring transaction (Note 13)	(1,825,506)	-
Change in employees future benefits	79,200	33,100
Net change in non-cash working capital	(506,034)	33,424
	(110,316)	565,070
Capital activities		
Purchase of capital assets*	(2,262,997)	(1,745,078)
Financing activities		
Capital contributions*	551,698	675,001
Line of credit	770,000	-
	1,321,698	675,001
Investing activities		
Net change in investments	905,772	46,780
<b>NET DECREASE IN CASH</b>	(145,843)	(458,227)
Cash, Beginning of year	1,082,751	1,540,978
<b>CASH, End of year</b>	\$ 936,908	\$ 1,082,751

\* Purchase of capital assets in the amount of \$29,796 (2016- \$10,045) is included in accounts payable and accrued liabilities at year end. Similarly, capital contributions in the amount of \$592,984 are included in accounts receivable at year end.

During the year, the Council paid cash for the purchase of capital assets that was unpaid and included in accounts payable and accrued liabilities in the prior year, in the amount of \$10,045 (2016 - \$583,585). This cash payment is reflected in the current year's purchase of capital assets.

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## MARCH 31, 2017

### 1. PURPOSE OF THE ORGANIZATION

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The New Brunswick Research and Productivity Council (the Council) is a government not-for-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

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These consolidated financial statements are prepared by management in accordance with Canadian Public Sector Accounting Standards including the 4200 standards for government not-for-profit organizations. A summary of the significant accounting policies used in the preparation of these consolidated financial statements are as follows:

#### (a) Consolidation policy

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

#### (b) Revenue recognition

Revenue from operations and sundry are recognized when the services are provided. 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 recognized as revenue 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. Contributions restricted for the purchase of capital assets are deferred and amortized into revenues on a straight-line basis corresponding with the amortization rates of the related assets. 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.

#### (c) Capital assets

Capital assets are recorded at cost and amortized on a straight-line basis over the estimated useful lives of assets, as follows:

Land and buildings	3%
Operating equipment	12.50%
Computer equipment	25%
Vehicle	25%

#### (d) Financial instruments

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

Financial instruments are recorded at fair value on initial recognition. Investments quoted in an active market are measured at fair value. All other financial instruments are measured at cost or amortized cost unless management has elected to carry the instrument at fair value. Management has elected to record all investments at fair value as they are managed and evaluated on a fair value basis.

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

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### (d) 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.

### (e) Foreign currency

Foreign currency transactions are recorded at the exchange rate at the time of the transactions.

Assets and liabilities denominated in foreign currencies are recorded at fair value using the exchange rate at the consolidated financial statement date. Unrealized foreign exchange gains and losses are recognized in the Statement of Remeasurement Gains and Losses. In the period of settlement, the realized foreign exchange gains and losses are recognized in the Statement of Operations and the unrealized balances are reversed from the Statement of Remeasurement Gains and Losses.

### (f) Investments

Investments held by the Council include publicly traded short and long term fixed income 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 valued at year end quoted closing prices where available. Fixed income securities are classified as Level 2 according to the fair value hierarchy and are valued at year end quoted closing prices where available. Where quoted prices are not available estimated fair values are calculated using comparative securities.

### (g) Employee future benefits

#### (i) Pension

Qualifying employees of the Council are members of the New Brunswick Public Service Shared Risk Plan. The plan is a Shared Risk Plan under which contributions are made by both the Council and its employees. The Council is not responsible for any unfunded liability in the plan nor does it have access to any plan surplus. The Council's cost is limited to its annual contributions which were \$677,618 for the year ended March 31, 2017 (2016 - \$626,240).

Pension administration services are provided by Vestcor Pension Services Corporation at no cost to the Council.

#### (ii) Retirement allowances

Employees who began full-time employment prior to April 1, 2011 are entitled to retirement allowance benefits. The Council recognized a liability and an expense in the period in which employees render services in return for the benefits. The accrued liability for this retirement allowance benefit was determined by an actuarial valuation carried out as of March 31, 2015 and extrapolated to March 31, 2017.

#### (iii) Accrued sick pay benefits

Employees are entitled to sick pay benefits which accumulate but do not vest. The Council recognized a liability and an expense in the period in which employees render services in return for the benefits. The accrued liability for this benefit was determined by an actuarial valuation carried out as of March 31, 2015 and extrapolated to March 31, 2017.

### (h) Measurement uncertainty

The preparation of consolidated financial statements 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 consolidated 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 and deferred capital contributions 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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### (i) Early adoption of new accounting standard

Effective April 1, 2016, the Council early adopted PS 3430 *Restructuring transactions* to account for and report the restructuring transaction which occurred between the Council and the Province of New Brunswick (the Province). PS 3430 establishes standards on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities. See Note 13.

## 3. RISK MANAGEMENT

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The Council follows a conservative investment policy (Note 4) 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 maximum exposure to credit risk is equal to the receivables balance of \$2,972,944 at March 31, 2017 (2016 - \$1,784,487). The total receivables balance is net of an estimated allowance for doubtful accounts of \$76,593 (2016 - \$97,809).

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) 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 bear interest at coupon rates, reducing the impact of rate fluctuations on cash flows. The fair value of these securities may vary with market rates.

The line of credit bears interest at a variable rate, which subjects the Council to cash flow risk.

### iii) Currency risk

Currency risk arises on financial instruments denominated in a foreign currency. A portion of the Council's investments are equity securities denominated in USD as well as a portion of accounts receivable and payables. The impact of a change in currency rate at March 31, 2017 would be limited to these balances:

Financial Instruments demoninated in USD	2017	2016
Cash	\$ 376,845	\$ 201,294
Accounts receivable	163,763	98,858
Equity securities	558,186	651,221
Accounts payable	16,103	31,196
	<u>\$ 1,114,897</u>	<u>\$ 982,569</u>

#### 4. INVESTMENTS

The Council's objective in managing its investments is to remain a sustainable operation while fulfilling its overall mandate to provide independent research, testing and technical services organization.

The Council's investments are managed by a third party subject to an investment policy with target allocations as follows:

Cash and equivalents	10%
Fixed income	55%
Equity	35%

The objective of the investments 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.

Investments in the fair value category	Fair value hierarchy level	2017	2016
Equity securities	Level 1	\$ 2,840,587	\$ 2,968,133
Fixed income securities	Level 2	4,369,803	4,989,898
		<u>\$ 7,210,390</u>	<u>\$ 7,958,031</u>

There were no transfers between Level 1 and Level 2 during the year. Fixed income securities have interest rates from 1.7% to 4.55% (2016 – 1.7% to 5.17%) and mature between April 2017 and July 2022.

#### 5. CAPITAL ASSETS

	2017			2016
	Cost	Accumulated amortization	Net book value	Net book value
Land and buildings	\$ 6,144,533	\$ 2,111,560	\$ 4,032,973	\$ 1,863,614
Operating equipment	11,748,091	8,790,060	2,958,031	1,859,087
Computer equipment	758,059	657,622	100,437	52,773
Vehicle	20,937	20,937	-	-
	<u>\$ 18,671,620</u>	<u>\$ 11,580,179</u>	<u>\$ 7,091,441</u>	<u>\$ 3,775,474</u>

#### 6. LINE OF CREDIT

The Council has a demand operating credit line available in the amount of \$1,000,000 for general business purposes at the bank's prime lending rate plus 0.25%. The line of credit is secured by a 1<sup>st</sup> General Security Agreement and a Pledge agreement in the amount of \$1,000,000 on the Council's investments.

#### 7. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions related to capital assets represent the unamortized amount of grants received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the Statement of Operations.

	2017	2016
Balance, beginning of year	\$ 542,278	\$ 251,440
Contributions	1,144,682	387,641
Amounts amortized to revenue	(220,192)	(96,803)
Balance, end of year	<u>\$ 1,466,768</u>	<u>\$ 542,278</u>

## 8. 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 to a maximum of 25 years. 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 consolidated 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 consolidated financial statements.

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

Discount rate	2.95%	(2016 - 2.85%)
Salary increases	3.5%	(2016 - 3.5%)
Retirement age	Age 60	(2016 - Age 60)
Probability of excess sick leave usage	6.2%	(2016 - 6.2%)

	2017			2016		
	Retirement Allowances	Sick Pay Benefits	Total	Retirement Allowances	Sick Pay Benefits	Total
Accrued benefit obligation, April 1	\$ 1,249,200	\$ 110,200	\$ 1,359,400	\$ 1,199,600	\$ 110,200	\$ 1,309,800
Current service cost	57,800	8,300	66,100	60,900	-	60,900
Interest on obligation	36,100	3,200	39,300	36,900	-	36,900
Benefit payments	(22,000)	(20,200)	(42,200)	(79,800)	-	(79,800)
Actuarial gain	(1,200)	1,400	200	31,600	-	31,600
Accrued benefit obligation, March 31	1,319,900	102,900	1,422,800	1,249,200	110,200	1,359,400
Unamortized actuarial loss	(206,500)	(35,100)	(241,600)	(225,100)	(32,300)	(257,400)
Accrued benefit liability at March 31	\$ 1,113,400	\$ 67,800	\$ 1,181,200	\$ 1,024,100	\$ 77,900	\$ 1,102,000

## 9. INTERNALLY RESTRICTED NET ASSETS

The Council's board of directors has internally restricted resources amounting to \$7,171,045 as at March 31, 2017 (2016 - \$7,171,045). 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. There was no transfer for the year ended March 31, 2017 (2016 - \$200,000).

## 10. EXPENSES BY OBJECT

	2017	2016
Personnel	\$ 7,376,379	\$ 6,379,779
Supplies	1,174,098	1,018,908
Amortization of capital assets	792,287	586,838
Facilities	718,462	804,207
Rechargeable	665,078	606,959
Office	657,356	525,786
Other	85,824	80,565
Professional fees	394,093	318,046
Purchase of assets (Note 12)	339,000	-
Safety	34,858	33,037
Bad debt	(21,106)	1,716
	\$ 12,216,329	\$ 10,355,841

## 11. RELATED PARTY TRANSACTIONS

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The Council is a Provincial Crown Corporation, established by the Province as described in Note 1. As such, Government departments and agencies as well as other Crown agencies are considered related parties.

During the year, the Council provided services to government departments and Crown agencies of the Province. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

	<u>2017</u>	<u>2016</u>
Revenue from services provided for the year		
Government departments and agencies	\$ 608,852	\$ 313,918
NB Power and related entities	410,985	320,948
	<u>\$ 1,019,837</u>	<u>\$ 634,866</u>
Accounts receivable at 31 March		
Government departments and agencies	\$ 161,120	\$ 38,411
NB Power and related entities	36,890	92,305
	<u>\$ 198,010</u>	<u>\$ 130,716</u>

The Regional Development Corporation approved capital funding projects for the Council in the amount of \$644,862 (2016 – \$175,000) which is included in deferred capital contributions.

## 12. PURCHASE OF ASSETS

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During the year, after acquiring equipment, methodology and standard operating procedures from another business, the Council began to offer a new service line, toxicity testing. The transaction was executed as a purchase of assets for a total purchase price of \$372,000. This resulted in the addition of \$33,000 to capital assets and the remainder of the purchase price, including commission, being expensed.

## 13. RESTRUCTURING TRANSACTION

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Effective March 31, 2017, as a result of the Province's Strategic Program Review, the Province transferred to the Council the responsibility of providing lab services on behalf of the Province. This includes services formerly provided by the Province's fish health, environment and dairy labs. As part of this transaction, the ownership of a laboratory building in St. George, NB was transferred to the Council. The building was recognized at the Province's carrying value. No consideration was paid as part of this transfer.

## 14. COMPARATIVE FIGURES

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Where appropriate, the consolidated financial statements have been reclassified to conform to the presentation used in the current year.