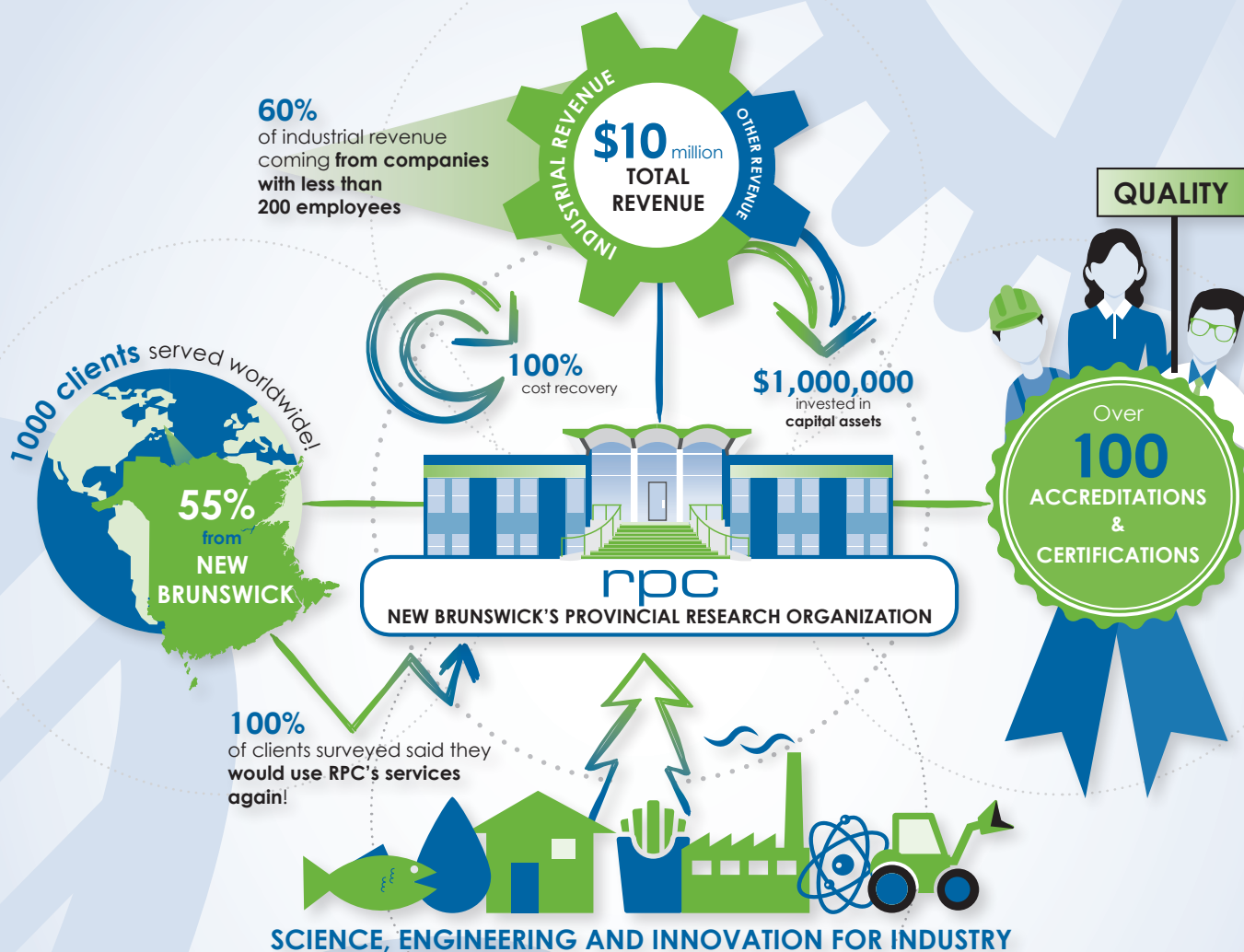


rpc

SCIENCE & ENGINEERING • SCIENCE ET INGÉNIÉRIE



ANNUAL REPORT
2014 • 2015

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.

Would you like fries with that?

McCain Foods Partners with RPC for \$10M R&D Project

A major innovation project was announced at McCain Foods. The provincial government invested \$5 million in a research and development project at McCain Foods (Canada), which will see the company work with small and medium-sized businesses and researchers from New Brunswick, to pursue process improvement, product development and soil remediation initiatives.

"We are pleased to partner with McCain Foods as they create new opportunities for our economy through research and development projects which will have an impact all the way across their production chain, from our local farms to the grocery shelves," said Premier David Alward.

The funding will be used toward a five-year project, with the company providing \$5 million in matching funds that focuses on process improvements, including ways to reduce waste through technological means, as well as soil remediation and agrological analytics using drone technology.

"We are delighted to partner with the province on this very important initiative and are pleased that the research and innovation will be done here in New Brunswick and will have far-reaching benefits," said Allison McCain, company chair. "We will be partnering with a number of other New Brunswick companies to achieve our objectives and our agricultural work will help all farmers."

The project will be led by McCain Foods in close collaboration with the Research and Productivity Council, and other New Brunswick suppliers. RPC has had an active relationship with McCain Foods since our inception in 1962.

Harrison McCain was an original RPC board member, pictured right at RPC's first board meeting in September 1962.

(L-R): K.V. Cox (Vice-President and General Manager NBTel), A. Savoie (Barrister), H. Fredericks (Management Consultant), Harrison McCain (President, McCain Foods), L.W. Flett (Businessman), Dr. L.W. Shemilt, RPC Board Chairman, D.W. Gallagher, RPC Executive Director (temporary), Dr. D.W.B. Robinson (Assistant Director of Research, Bathurst Pulp and Paper).



STRATEGIC CORPORATE OBJECTIVES

Strategic 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).

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 invest in human capital including both succession hiring and strategic hiring to provide for new capabilities.

RPC's revitalization plan includes renewal, meaning increased annual capital spending on equipment replacement, and facilities maintenance. Much of the building infrastructure is approaching 50 years old and requires increased attention. RPC will commit up to \$1 million annually for capital improvements.

RPC will also be pursuing a revitalization project. This will build on our existing capabilities to provide increased capability and capacity. The last significant revitalization was a \$20 million project during 1987-1990; we anticipate a project of a similar magnitude.

Pursue Growth Opportunities

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

As a provincial research organization (PRO), growth includes expansion of service offerings, modernizing of methods, obtaining accreditations, acquiring of expertise, acquiring of modern instruments and equipment, and developing appropriate labs and facilities. Growth is pursued with the objectives of better serving our clients and sustainability of RPC.

Three types of growth will be considered, with the primary focus on organic growth:

- a. Organic Growth: Core growth that involves expanding our service offerings, gaining a new accreditation, or offering a new service line.
- b. Acquisition: This is a rare opportunity that would involve a chance to acquire a private or perhaps public organization that fits with RPC's mandate.
- c. Expansion: This would be the opening of a new site or a new facility.

Communications and Business Development

Business development and communication is an on-going challenge for all businesses and RPC is no exception. Our plan is to build on our success through continuous improvement and new initiatives.

With continuous improvement, we will assess RPC's business development activities, and invest as necessary. Improvements will be made to our website, social media, trade show participation and tools, industry association involvement, and internal communications.

New initiatives may include sales and communications training, software tools, expanded social media use, and a competitive intelligence initiative.

Operational Excellence

Continue to develop business systems and processes to operate efficiently and effectively. Given the low government support environment, operating in a virtually self-sustaining mode will be a near term goal.

Expected tactics will include assessing and reviewing ERP/LIMS, developing and advancing a facility maintenance plan, sustaining our safety culture, investing in tools and training for human resource management, continuous improvement of quality systems, and building on RPC's board function, governance and oversight.

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 fund raising efforts for the Fredericton Food Banks, encouraging employee-led charity initiatives, and continuing to expand our recycling initiatives.

FROM THE CHAIRMAN AND EXECUTIVE DIRECTOR

This past year was very positive for RPC. Our sales revenue grew to exceed \$10 million. We invested \$1 million in capital improvements. We served 1000 clients. We added new service lines and capabilities. Costs were fully recovered, and we had a modestly positive net income (see *Consolidated Statement of Operations*, p. 14). This performance was achieved in an environment that included a stalled economy, double digit unemployment, and a global slump in key resource sectors including mining and energy.

The New Brunswick economy continues to be at recessionary levels with Gross Domestic Product (GDP) growth at 0% and marginally positive in 2014. Newfoundland and Labrador was a bright spot with an A+ grade and 8% real GDP growth during 2013 and that momentum carried into 2014. Slumping oil prices will impact this growth; however, this remains a hotspot in the region where RPC has had success in attracting new business. We will continue to pursue opportunities related to Newfoundland and Labrador's economy.

RPC continues to have a diverse scope of analytical testing and serves an equally diverse group of clients. Each year we add new capabilities to serve client needs. A successful new service line is our medical marijuana testing. RPC is licensed through Health Canada to complete these tests that draw on RPC's cross-functional capabilities in organic chemistry, inorganic chemistry, and microbiology. The service line has been successful and has helped RPC to grow its client base by serving local and national clients. The project was awarded the 2015 merit award (see p. 8).

RPC's innovation services are also in demand. New and revised funding programs are more business-friendly which has helped our clients to benefit. A good example is the New Brunswick Innovation Foundation's (NBIF) Innovation Voucher Fund. The voucher provides substantial funding to business to acquire research services from providers including RPC. RPC worked on a number of voucher projects during the year and hosted the announcement of voucher recipients during the summer of 2014 (see *Vouching for Innovation* p. 7). An on-going program that targets business-led innovation is the Industrial Research Assistance Program (IRAP) through the National Research Council. RPC enjoys an excellent, long-time relationship with IRAP and worked on a number of projects where clients received IRAP assistance. Changes were also announced to the Atlantic Canada Opportunities Agency (ACOA) Atlantic Innovation Fund. The changes effectively make the program more business friendly, another positive step that should stimulate business-led research projects. One of RPC's key innovation projects is a collaborative effort with McCain Foods Ltd. for new product and new process development (see *Would you like fries with that?* p. 2).

RPC's renewal program started in 2015. A matching grant from the Atlantic Canada Opportunities Fund (ACOA) helped to secure new equipment in our organic and inorganic chemistry groups, as well as our air quality systems (AQS). The chemistry equipment will help us to remain competitive with the latest technologies. A unique instrument in AQS will lead to new research capabilities and

a new service line that is under development for launch later in 2015. RPC also completed building upgrades with new windows in our administration building and a significant lab renovation in our inorganic chemistry lab. RPC's renewal program will be continuing in 2015-16 with new additions to our engineering, food fisheries and aquaculture groups, as well as roofing and window projects.

RPC remains actively involved in boards, industry associations and other professional associations. In addition to the networking and business development opportunities, these activities contribute to our professional development as well as our mandate. Of note is Innoventures Canada (I-CAN), a national network of research technology organizations (RTOs) where RPC has been active in innovation related activities including: policy submissions, innovation workshops, collaborative research project opportunities, and Innovation School.

The past year included a number of changes in governance. Lee Corey was appointed as RPC's 5th Chairman (see *Changing of the Guard: RPC Welcomes 5th Chairman*, p. 5), and new members were welcomed to our board of directors (see *RPC Board of Directors* p. 10). There was also a change in our auditing function resulting from legislative changes for the Auditor General's (AG) office. With AG approval, the result was RPC retaining KPMG to perform our audit (see *financial statements* p. 12).

Internally, our Air Quality Services and Mineral and Industrial Services groups were structured into separate departments with Dr. Diane Botelho and Mr. Leo Cheung, P.Eng, promoted to Department Heads. Ms. Adele Levesque was promoted to Chief Financial Officer, and Shannon Farrell's duties were expanded to include Human Resources. These changes strengthen RPC's senior management team since the retirement of four experienced senior RPC employees.

The Outlook

The last two years has seen a wave of retirements resulting in significant effort in recruiting, training and transition. This unusually high rate of retirement is expected to return to more normal levels for the next several years.

RPC's performance is closely tied to the economy. The economic outlook in New Brunswick is weak; most forecast GDP to be positive, but in the 1.5% range, which fails to keep pace with more robust economies. Globally, low oil prices and the mining slump are expected to continue through the upcoming year. With the delay in the Energy East pipeline, there are no large projects expected to start in the coming year. These factors combine to project a challenging environment for RPC to grow.

During the most recent year, we grew revenue in a similarly challenging economy. The growth was a result of new service lines, new markets and new customers. For RPC to sustain and grow its performance, this strategy must, and will continue. Our renewal revitalization plans will aid in this challenge.

Notes of Appreciation

We are grateful for the loyalty and trust 1000 clients placed in RPC during the past year. Some of these clients have worked with RPC since our inception in 1962. We appreciate their devotion and will continue to earn your business to the best of our ability.

We are grateful for the on-going relationship with agencies that are committed to advancing the New Brunswick economy including Economic Development, the New Brunswick Research and Innovation Council, 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. Of note is the contribution from ACOA that has helped our renewal efforts.

Sincere thanks to our volunteer board of directors, individuals who are committed to helping New Brunswick's provincial research organization succeed (see *RPC Board of Directors*, p. 10). RPC's directors are community leaders who volunteer their time to provide constructive direction and guidance for New Brunswick's provincial research organization. During the past year, RPC's board was helpful in overseeing and approving the new strategic plan.

As always, we recognize the outstanding commitment of RPC's exceptional employees. Client surveys continue to recognize the professionalism, expertise and service of our employees; this is crucial for RPC's success. We also appreciate the employee commitment to safety and quality. The past year also saw an illustration of employee commitment to the organization during the storm Arthur (see *Stormy Times: Arthur Blows the Roof Off* p. 9). Employee and family response, to mitigate the impact of this crisis, was above and beyond expectation and representative of employee commitment in our everyday activity. Such employee commitment illustrates that RPC has 'the right stuff' to execute our strategic plan.



Lee H. Corey
Chairman



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

Changing of the Guard: RPC Welcomes Fifth Chairman

In October, RPC welcomed Mr. Lee Corey, Founder and Chairman of Corey Nutrition Company, as the Chairman of the New Brunswick Research and Productivity Council (RPC).

Mr. Corey becomes RPC's fifth Chairman succeeding Dr. L.W. Shemilt (1962-1970), Dr. Ken Cox (1970-1986), Dr. Knut Grotterod (1986-2008) and Mr. Ken Reeder, P.Eng. (2008-2015).

Mr. Corey leads a board of business and community leaders who volunteer their time to provide guidance and oversight of New Brunswick's provincial research organization, RPC. Since 1962, RPC has been serving the science and engineering needs of business by providing analytical, science, engineering and innovation services.

Ken Reeder, past president of Neill and Gunter Ltd, led RPC through a period of time that saw the elimination of the provincial operating grant and a large number of retirements including many key positions. Despite these challenges, RPC prospered, continuing a run of profitable performance and building RPC's capital fund helping to secure a promising future. Perhaps most importantly, Ken built on RPC's positive corporate culture encouraging employee communications and engagement. RPC is appreciative of Ken's service.

In accepting the appointment, Mr. Corey thanked Mr. Reeder for his leadership and expressed his enthusiasm to support an organization well known for its outstanding employees, exceptional quality, and excellent customer service. In Lee's words, "I truly admire the quality of the people, the positive culture, and absolute professionalism of RPC. I am proud to be associated with this tremendous organization."



Photo:
Lee Corey and Ken Reeder

ANNUAL PLAN GOALS FOR 2014-2015

RPC's Annual Plan for 2014-2015 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.

Progress achieved regarding **Corporate Objectives** identified in the 2014-2015 Annual Plan is summarized below.

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

This objective was partially achieved. RPC generated a positive net income (see *Consolidated Statement of Operations*, p. 14) but did not meet our targeted net income.

Challenging economic conditions continued, however, RPC was successful and grew our revenue by \$365,000 to be back over \$10 million. The downturn in the mining sector persisted, having a direct impact to our minerals and industrial processing group and indirect on our environmental analytical services. We did add new service lines and added new clients which helped to improve our sales revenue.

The *Revenue Sources Profile* (Chart 1) illustrates that the bulk of RPC's sales revenue (83%) continues to come from industry. Revenue from federal contracts was down but remained the second largest source from services at just under 7%. Revenue from the provincial government was up marginally at \$296,000 (3.0%), but well below the highs of \$1.2 million during the 1980s. There was no provincial grant during the year, however, RPC was successful in securing a capital grant from the Atlantic Canada Opportunities Agency (ACOA), and the Province committed to some co-funding to be finalized in the next fiscal year.

The *Clients by Location* (Chart 2), illustrates that 529 of RPC's 1000 clients (53%) were from New Brunswick. Other clients were regional (20%), national (24%) and international (3%). These results are consistent with performance in recent years.

CHART 1: REVENUE SOURCES PROFILE

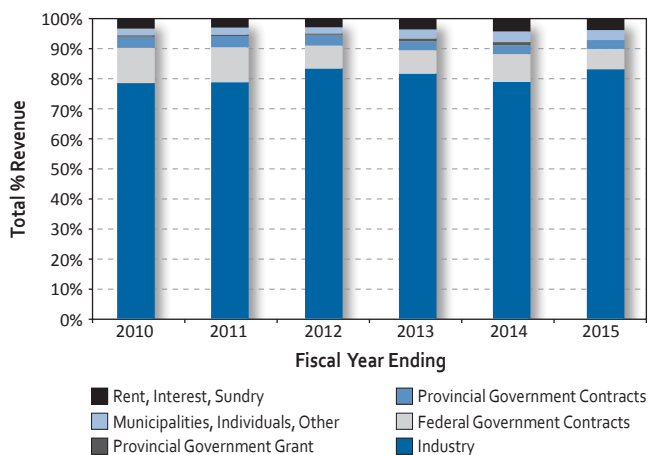
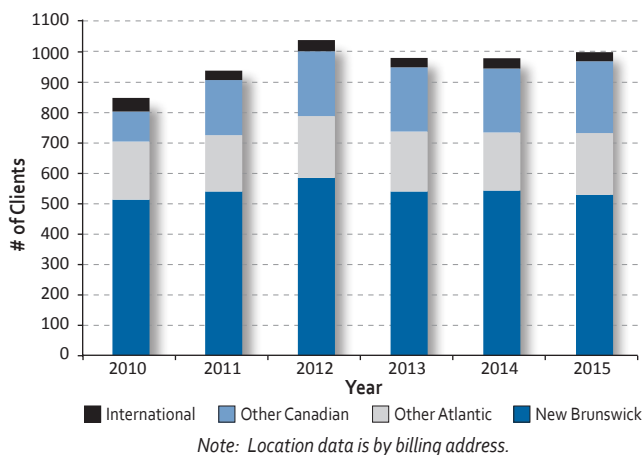


CHART 2: CLIENTS BY LOCATION

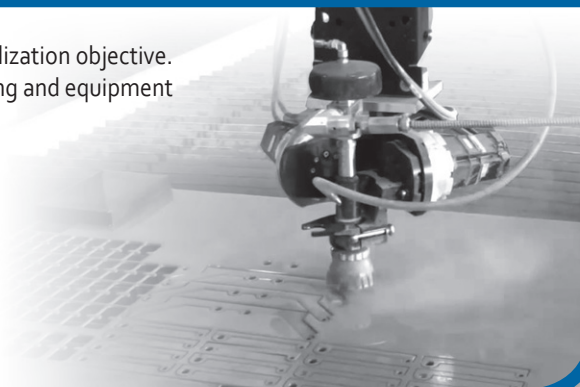


Under Construction:

RPC Renewal Program Underway

RPC's strategic plan for 2015-2020 includes renewal as part of the revitalization objective. In each of the next 5 years RPC plans to invest up to a \$1 million in building and equipment upgrades. Significant investments during the past year include:

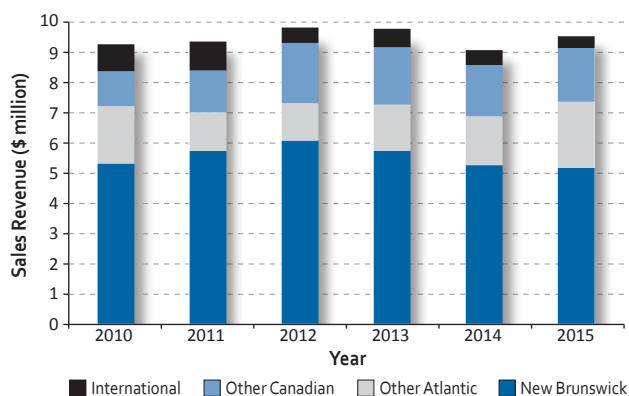
- Replacement of windows in administration building
- New gas chromatography instruments in organic chemistry
- New instrumentation in inorganic chemistry
- Complete renovation of one inorganic chemistry lab
- Addition of a water jet cutter for our engineering group
- Addition of a mass spectrometer in AQS



RPC's expertise attracted 471 clients from outside New Brunswick, including 30 international clients. Our export revenue (outside New Brunswick) is a crucial component of our sustainability, underscores our relevance, and contributes to the provincial economy.

As illustrated in Chart 3, *Clients Served by Revenue*, RPC exported nearly \$4.5 million of services from the province, helping to create and maintain employment opportunities for highly skilled personnel in New Brunswick. This is up from \$3.8 million last year and accounts for the growth in total revenue as well as compensates for the decline in provincial revenues due to the very slow economy. International exports were just under \$400,000, an important contribution, but roughly half what we see when the mining sector is booming.

CHART 3: CLIENTS SERVED BY REVENUE



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, but RPC fell short of the targeted \$227,700 net income. We are proud that this is the eleventh successive year of profitable performance.

II. Strategic hiring and succession planning.

RPC successfully executed on this objective with effective succession planning for retirements which continued through the past year. The succession plan has been updated and reflects a lower level of activity for the near future.

During the past year, two strategic hires were made to succeed retiring employees. There were a variety of temporary hires, maternity hires, etc., that saw a total of twelve new hires and ten departures.

Strategically, RPC worked with MITACS, a program for hiring university graduates, to confirm our eligibility for funding. We also have a developing relationship with the UNB Chemistry Department that will see a student researcher at RPC to support a project.

III. Promote RPC's mandate as New Brunswick's business-led research provider.

A number of activities were conducted to promote business-led research. RPC continued to promote utilization of IRAP Network Members Agreement (for small innovation projects) and completed over a dozen projects. We utilized the New Brunswick Innovation Foundation's Innovation Voucher Fund to help clients on a number of projects. Significant progress, including dozens of patents, was made with the McCain Innovation Challenge project. We expanded our relationship with Genome Atlantic, presented as subject matter experts on bio-leeching, and have prepared funding proposals.

Other activities included participation in ACOA's innovation evaluation committee and were invited to prepare and present an innovation policy paper for the New Brunswick Research Innovation Council. RPC also obtained an ACOA grant for innovation infrastructure.

Finally, we continued presentations and participation in industry associations, boards and committees.

IV. Develop Strategic Plan for 2015-2020.

This objective was successfully completed.

Vouching for Innovation: NBIF Innovation Voucher Recipients Announced at RPC

The New Brunswick Innovation Foundation offers the Innovation Voucher Fund, a program that assists business with funding for innovation services. Eligible recipients may qualify for funding of up to 80% of the costs of services from qualified suppliers, including RPC. The voucher program targets innovation opportunities with high commercial potential.

In July, former Premier David Alward, announced the first round of recipients at RPC's facilities in Fredericton. Recipients, including RPC clients, displayed their new product innovations. The Innovation Voucher Fund has been well-received by industry as it targets market-driven innovation.



2014-2015 Merit Award

Each year an individual or team of individuals who are responsible for a substantial achievement at RPC and are recognized with a merit award. The 2014-2015 merit award is presented to the team led by the Organic Analytical Services department for their efforts in creating a service line in response to client inquiries resulting from the newly created Marijuana for Medical Purposes Regulations. Through these new regulations Health Canada now licenses private companies to grow and sell marijuana to people possessing valid prescriptions. Mandatory quality testing is required as part of the new regulations.

This was an excellent opportunity for several departments within RPC to work together to supply a service to a new client base. There were three departments that were challenged to validate new methods or existing methods to prove they were fit for purpose when testing medicinal marijuana. RPC also upgraded our existing license to accommodate the increased amount of controlled substance that would be handled. Our ability to offer these services provided our clients an effective laboratory partner that produces quality results in a timely manner at competitive prices.

The project success is a good example of RPC's agility in recognizing an industry need and proactively acting to serve their need. The project is an excellent example of the benefits of multidisciplinary teamwork. It resulted in new clients, expanded capacity, and expanded capability while helping the industry to grow and therefore was worthy of the 2014-15 merit award.



*2014-2015 Merit Award Team Members (from left to right):
Karen Broad, Peter Crowhurst, Bruce Phillips, Cathy Hay, Troy Smith*

2014-2015 Employee Career Milestones

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

5 Years Gillian Boyer
Megan Ashworth

10 Years Eric Cook
Katie Cogle

15 Years Geri Tees
Sherry Binette
Jennifer Doucette
Amy Brown

20 Years John King

25 Years John Aikens
Chris Colford



25 Year Recipients - Chris Colford & John Aikens

RPC Senior Management Team (as of June 1, 2015)

Executive Management

Eric Cook, Executive Director/CEO
Adele Levesque, Chief Financial 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

Stormy Times: Arthur Blows the Roof Off

During what was supposed to be a quiet summer Saturday, Arthur blew into Fredericton causing significant damage. RPC was not immune.

Extreme wind conditions blew the roof off one of the buildings facing Montgomery Street. An employee was in another part of the building, saw the damage and called for help. In a short time, several RPC employees, some with family members, were on-site working to minimize the damage by covering equipment and collecting water that was pouring into the building. RPC's suppliers were very responsive and were on site to take proactive measures for safety, and to prevent further damage.

The storm was destructive and costly for RPC; it caused some disruption but no one was injured. Of note is the responsiveness of our employees. There is no job description or standard operating procedure for what to do when the roof blows off on a Saturday, yet our employees were responsive and proactive and did all the right things to ensure people were safe and damage was minimized. This speaks to RPC's culture and the passion for the organization. Every cloud has a silver lining, and in this case, the commitment and care for the organization came shining through.



BOARD OF DIRECTORS (as of June 1st, 2015)

Lee Corey

Chairman
Chairman, Corey Nutrition Company

Eric Cook, P.Eng.

Executive Director/CEO, RPC

Wayne Arsenault

CEO, Corey Nutrition

Jean Boudreau, P.Eng.

Senior Transportation Engineer, GEMTEC Ltd.

Dr. David Burns

Vice-President (Research), University of New Brunswick

Denis Caron

Deputy Minister, Agriculture, Aquaculture and Fisheries

Janet Gagnon

(Retired) Vice President, ACOA New Brunswick

Jeff Jennings

Owner, Strategic Direction

Daniel Laplante

Director of Operations, Enseignes Pattison Sign Group

Bernard Morin

President, Thermopak

Karen Murdoch

Director of International Business and Entrepreneurship Centre,
UNB

Shannon Farrell

Corporate Secretary

Adele Levesque

Treasurer

On the Road:

RPC Board Meets in Edmundston

RPC's board of directors met in Edmundston, New Brunswick in June. The meetings included tours of two successful New Brunswick manufacturers who are incorporating innovation in their business models.

IPL Inc. is a leading North American producer of injection molded plastic products. The company develops innovative, value-added products and incorporates advanced technologies in their manufacturing operations. You've probably purchased some of their products at your local grocery store.

Pattison Sign Group is one of the largest sign companies in the world. Their mission is to provide customers with complete turn-key physical branding solutions that offer the highest value, provide peace of mind, and maximize their brand promise. Pattison produces signs for some of the country's most recognizable corporate brands.

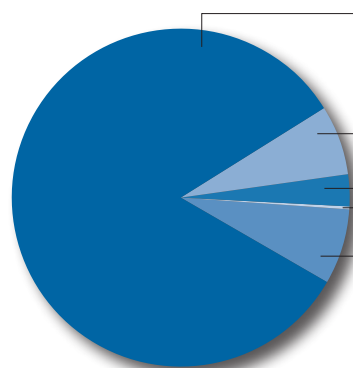
The board also had a presentation from the Northwest District Office of Economic Development New Brunswick, providing an overview of the economy in the region.

RPC's volunteer board meets quarterly to provide oversight and guidance for the organization.



REVENUE HIGHLIGHTS

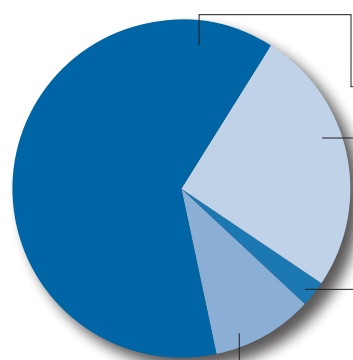
SOURCES OF REVENUE



	2014-2015	2013-2014
Industry	\$ 8,286,974	\$ 7,600,910
Federal Government Contracts	672,101	893,906
Provincial Government Contracts ¹	295,799	287,666
Provincial Government Grant	-	100,000
ACOA Capital Grant	35,920	-
Other	714,788	756,808
Total	\$ 10,005,582	\$ 9,639,290

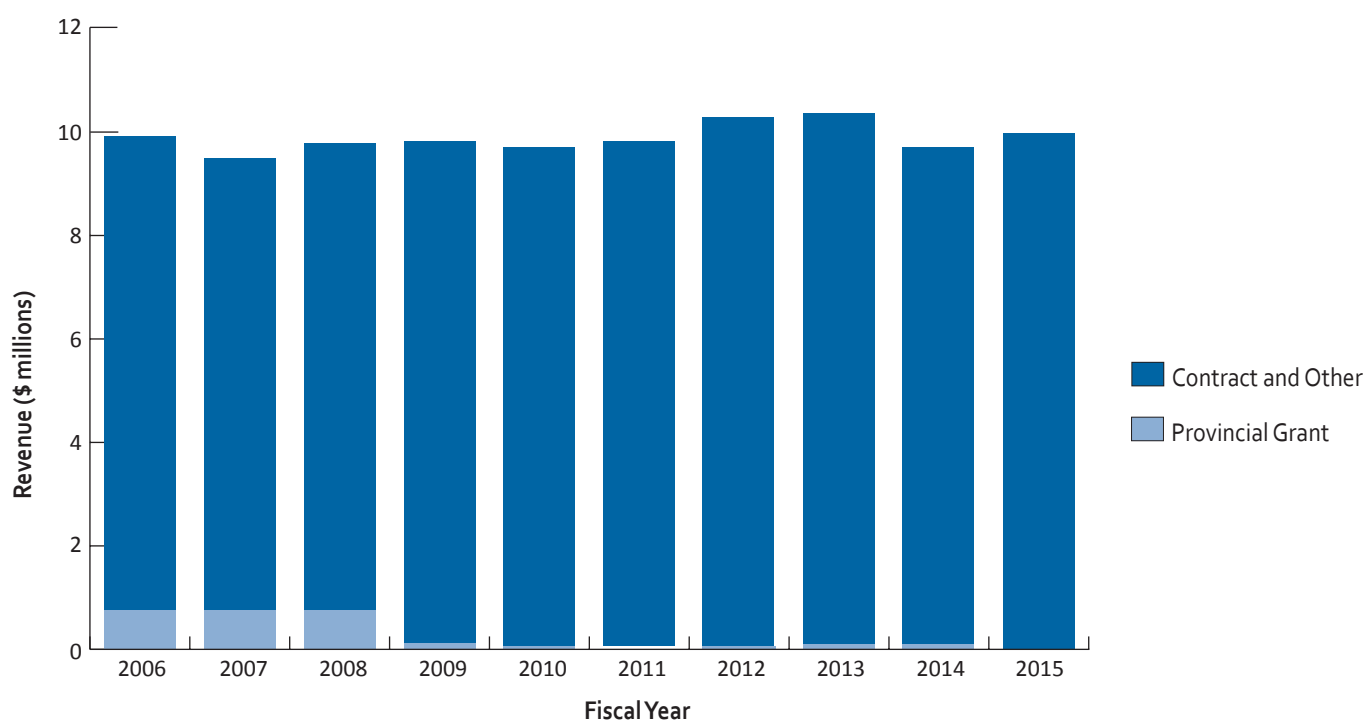
¹ Excludes provincial crown corporations such as NB Power.

DISTRIBUTION OF INDUSTRIAL REVENUE



	2014-2015	2013-2014
Under 200 Employees	\$ 5,174,222	\$ 4,553,508
Over 200 Employees	2,102,312	1,679,988
Foreign Industry	212,240	345,680
Other	798,200	1,021,735
Total	\$ 8,286,974	\$ 7,600,910

TOTAL INCOME 2006-2015



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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, 2015, 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, 2015, 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.

Comparative Information

The consolidated financial statements of the New Brunswick Research and Productivity Council as at and for the year ended March 31, 2014 were audited by another auditor who expressed an unqualified opinion on those consolidated financial statements on October 1, 2014.

Chartered Professional Accountants
June 24, 2015
Fredericton, Canada

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

MARCH 31, 2015

	March 31 2015	March 31 2014
ASSETS		
Current assets		
Cash	\$ 1,540,978	\$ 1,050,189
Accounts receivable	2,059,076	1,830,452
Work in progress	171,395	93,750
Prepaid expenses	95,305	84,654
	<u>3,866,754</u>	<u>3,059,045</u>
Investments (Note 4)	8,224,043	8,328,180
Capital assets, net (Note 5)	<u>3,190,774</u>	<u>2,795,041</u>
	<u>\$ 15,281,571</u>	<u>\$ 14,182,266</u>
LIABILITIES, DEFERRED CONTRIBUTIONS AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,456,032	\$987,694
Deferred revenue	301,526	302,314
	<u>1,757,558</u>	<u>1,290,008</u>
Deferred capital contributions (Note 6)	251,440	-
Employee future benefits (Note 7)	<u>1,068,900</u>	<u>1,026,700</u>
	<u>1,320,340</u>	<u>1,026,700</u>
Net Assets		
Unrestricted	2,293,294	2,849,472
Internally restricted (Note 9)	6,971,045	6,221,045
Invested in capital assets	2,939,334	2,795,041
	<u>12,203,673</u>	<u>11,865,558</u>
	<u>\$ 15,281,571</u>	<u>\$ 14,182,266</u>

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

Approved by the Council



Chairman



Executive Director

CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED MARCH 31, 2015

	<u>2015</u>	<u>2014</u>
REVENUE		
Operations	\$ 9,585,231	\$ 9,122,587
Investment	246,293	229,165
Sundry	138,138	187,538
Operating grant		
Province of New Brunswick	-	100,000
Amortization of deferred capital contributions	35,920	10,403
	<u>10,005,582</u>	<u>9,649,693</u>
EXPENSE (Note 8)		
Operations	7,070,888	6,840,810
Administration	2,313,957	2,274,445
Amortization of capital assets	573,705	546,752
Bad debts (recovery)	23,941	(45,362)
	<u>9,982,491</u>	<u>9,616,645</u>
EXCESS OF REVENUE OVER EXPENSE	<u>\$ 23,091</u>	<u>\$ 33,048</u>

CONSOLIDATED STATEMENT OF REMEASUREMENT GAINS AND LOSSES FOR THE YEAR ENDED MARCH 31, 2015

	<u>2015</u>	<u>2014</u>
ACCUMULATED REMEASUREMENT GAINS, beginning of year	\$ 940,741	\$ 577,179
Unrealized gains attributable to:		
Investments	193,847	296,038
Foreign exchange	145,868	67,524
Amounts reclassified to the statement of operations:		
Losses realized during the year	23,940	-
Foreign exchange	<u>(48,631)</u>	<u>-</u>
Change in accumulated remeasurement gains for the year	<u>315,024</u>	<u>363,562</u>
ACCUMULATED REMEASUREMENT GAINS, end of year	<u>\$ 1,255,765</u>	<u>\$ 940,741</u>

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

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED MARCH 31, 2015

	Unrestricted	Internally Restricted	Invested in Capital Assets	Total 2015	Total 2014
BALANCE, beginning of year	\$ 2,849,472	\$ 6,221,045	\$ 2,795,041	\$ 11,865,558	\$ 11,468,948
Excess of revenue over expense	23,091	-	-	23,091	33,048
Change in accumulated remeasurement gains	315,024	-	-	315,024	363,562
Acquisition of capital assets	(969,438)	-	969,438	-	-
Amounts funded by capital contributions	287,360	-	(287,360)	-	-
Amortization of capital assets	573,705	-	(573,705)	-	-
Amortization of deferred capital contributions	(35,920)	-	35,920	-	-
Transfer (Note 9)	(750,000)	750,000	-	-	-
BALANCE, end of year	\$ 2,293,294	\$ 6,971,045	\$ 2,939,334	\$ 12,203,673	\$ 11,865,558

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31, 2015

	<u>2015</u>	<u>2014</u>
CASH PROVIDED BY (USED FOR):		
Operating activities		
Excess of revenue over expense	\$ 23,091	\$ 33,048
Items not involving cash:		
Amortization of capital assets	573,705	546,752
Amortization of deferred capital contributions	(35,920)	(10,403)
Change in employee future benefits	42,200	(69,500)
Change in non-cash working capital	<u>(132,709)</u>	<u>31,362</u>
Net cash provided by operating activities	470,367	531,259
Capital activities		
Acquisition of capital assets*	(385,853)	(478,642)
Investing activities		
Change in investments	406,275	28,161
Financing activities		
Reduction in note payable	<u>-</u>	<u>(18,152)</u>
NET INCREASE IN CASH	490,789	62,626
Cash, beginning of year	<u>1,050,189</u>	<u>987,563</u>
CASH, end of year	<u>\$ 1,540,978</u>	<u>\$ 1,050,189</u>

* Purchase of capital assets in the amount of \$583,585 is included in accounts payable at year end.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 MARCH 2015

1. Purpose of the organization

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

These 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 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 revenue on a straight-line basis at a rate corresponding with the amortization rates for the related capital 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:

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

(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

(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 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 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 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, formerly the New Brunswick Public Service Superannuation 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 \$606,062 for the year ended March 31, 2015 (2014 - \$442,065).

Pension administration services are provided by the Province of New Brunswick's Office of Human Resources 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.

(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.

(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 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 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.

3. Risk management

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 \$2,059,076 at March 31, 2015. The total receivables balance is net of an estimated allowance for doubtful accounts of \$100,710 (2014 - \$99,369).

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 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.

The Council's investments are disclosed in Note 4.

iii) Currency risk

Currency risk arises on financial instruments denominated in a foreign currency. The Council does not have a material amount of transactions or financial instruments denominated in foreign currency.

A portion of the Council's investments are equity securities denominated in USD as well as some cash, receivables and payables. The impact of a change in currency rate at March 31, 2015 would be limited to these balances:

Financial Instruments demoninated in USD	
Cash	\$ 50,336
Accounts receivable	63,793
Equity securities	626,436
Accounts payable	7,429
	<hr/>
	\$ 747,994

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 3rd 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.

4. Investments - continued

Portfolio investments in the fair value category	Fair value hierarchy level	2015	2014
Equity securities	Level 1	\$ 3,022,902	\$ 2,843,133
Fixed income securities	Level 2	5,201,141	5,485,047
		<u>\$ 8,224,043</u>	<u>\$ 8,328,180</u>

There were no transactions between level 1 and level 2 during the year. Fixed income securities have interest rates from 2.4% to 5.17% and mature between May 2015 and May 2019.

5. Capital assets

	2015			2014
	Cost	Accumulated amortization	Net book value	Net book value
Vehicle	\$ 20,937	\$ 15,703	\$ 5,234	\$ 10,469
Computer equipment	624,129	567,172	56,957	57,579
Operating equipment	9,423,630	7,725,128	1,698,502	1,273,317
Land and buildings	3,323,132	1,893,051	1,430,081	1,453,676
	<u>\$ 13,391,828</u>	<u>\$ 10,201,054</u>	<u>\$ 3,190,774</u>	<u>\$ 2,795,041</u>

6. 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.

	2015	2014
Balance, beginning of year	\$ -	\$ 10,403
Contributions receivable	287,360	-
Amounts amortized to revenue	(35,920)	(10,403)
Balance, end of year	<u>\$ 251,440</u>	<u>\$ -</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 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 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	3.10% (2014 - 3.75%)
Salary increases	3.5%
Retirement age	Age 60
Probability of excess sick leave usage	6.2% (2014 - 6.5%)

7. Employee future benefits - continued

	2015		2014	
	Retirement Allowances	Sick Pay Benefits	Retirement Allowances	Sick Pay Benefits
Accrued benefit obligation, April 1	\$ 1,000,000	\$ 77,000	\$ 1,103,400	\$ 76,400
Current service cost	67,400	5,000	67,500	5,100
Interest on obligation	37,500	2,900	36,600	2,700
Benefit payments	(69,900)	(4,300)	(181,900)	(5,200)
Actuarial gain/(loss)	164,600	29,600	(25,600)	(2,000)
Accrued benefit obligation, March 31	1,199,600	110,200	1,000,000	77,000
Unamortized actuarial loss	(208,600)	(32,300)	(47,300)	(3,000)
Accrued benefit liability at March 31	\$ 991,000	\$ 77,900	\$ 952,700	\$ 74,000

8. Expenses by object

	2015	2014
Personnel	\$ 6,471,641	\$ 6,280,458
Supplies	817,391	790,522
Facilities	646,485	641,399
Amortization of capital assets	573,705	536,349
Rechargeable	559,064	559,811
Office	544,817	530,032
Other	309,186	272,842
Safety	36,261	40,191
Bad debt (recovery)	23,941	(45,362)
	<u>\$ 9,982,491</u>	<u>\$ 9,606,242</u>

9. Internally restricted net assets

The Council's board of directors has internally restricted resources amounting to \$6,971,045 as at March 31, 2015 (2014 - \$6,221,045). 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. This amount includes the March 31, 2015 transfer of \$750,000 (2014 - \$550,000).

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.

	2015	2014
Revenue from services provided for the year		
Government departments and agencies	\$ 295,799	\$ 287,666
NB Power Group	398,761	244,365
	<u>\$ 694,560</u>	<u>\$ 532,031</u>
Accounts receivable at 31 March		
Government departments and agencies	\$ 49,566	\$ 42,336
NB Power Group	15,140	38,265
	<u>\$ 64,706</u>	<u>\$ 80,601</u>

11. Comparative figures

Certain comparative information has been reclassified to conform with the financial statement presentation used in the current year.