

rpc

SCIENCE & ENGINEERING



ANNUAL REPORT

17/18



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:

- 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.
- 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.

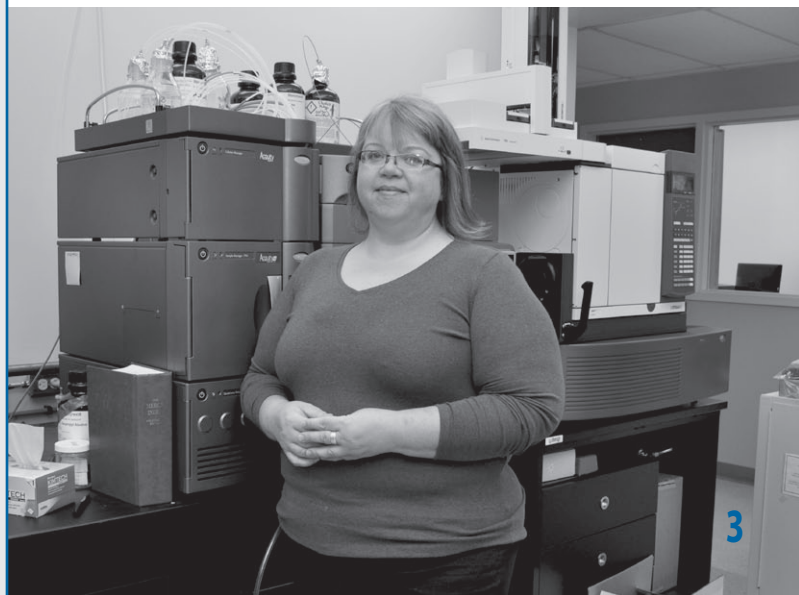
UNITED EFFORT: RPC Community Giving

RPC employees give back to the community in many ways. Some are members of service clubs, others are involved in school and church initiatives, others volunteer directly with charities and community initiatives. RPC's official corporate charity is the United Way.

RPC salutes Karen Broad for her service as Team Captain of RPC's annual United Way Campaign and thanks RPC employees for their participation. Karen, working with a team of volunteers, coordinates our activities, communicates our goal, distributes pledge forms, and encourages donors. We are especially proud of the participation of our new employees, many who are starting their careers and have become new donors, helping RPC to achieve its increasing goal.



Pictured Below: Karen Broad, RPC United Way Team Captain



FROM THE CHAIRMAN AND EXECUTIVE DIRECTOR

The 2017-2018 year was one of remarkable growth.

Sales revenue grew an astounding \$2 million or 18% to a record \$13.3 million (see *Consolidated Statement of Operations*, p. 14). To process this work, the staff grew to 143, an increase of 21 jobs including strategic hires in business development, quality assurance, procurement and IT to facilitate future growth. We continue to see growth in our client base, a primary indicator of the relevance of our services.

This unprecedented growth is driven by a variety of services, none more significant than the cannabis sector. RPC is a leading lab service provider with clients from coast to coast. The sector complements RPC's service offerings as it requires expertise in organic chemistry (including pesticides), inorganic chemistry and microbiology, all established service offerings. Also encouraging is the growing demand for other RPC services including air quality, automation, engineering, genetics and process engineering. We have worked closely with Opportunities New Brunswick in helping to promote New Brunswick as an attractive place for cannabis-related business.

There is growth in other areas of RPC's business, including a key client, the Province of New Brunswick. The Provincial Governments' Strategic Program Review included a project for non-medical lab services that saw the consolidation of labs with RPC as the service provider. This complements RPC's original mandate as the science and technology arm of government, eliminated redundancies, and resulted in sales revenue from the Province rebounding to mid 1980s levels (see *Revenue Highlights*, p. 11). RPC is working closely with appropriate government departments on projects such as water quality, and events such as the spring flooding. We foresee growth in activity and collaboration as relationships mature.

RPC's innovation services are in high demand from both established businesses and the start-up community. The creative ideas from promising entrepreneurs most often need something designed, built,

tested and optimized. These innovation services are categorized as translational services and are a primary RPC offering. During the past year, RPC worked with many start-ups, some, such as SomaDetect who have had international success, others like Millennia Tea made famous by Dragon's Den, and others that are poised for breakthroughs like AppDiginous.

We were proud to present the 2018 Merit Award to the RPC Quality Team (see *RPC Quality Team*, p. 8). This group, with representatives from each of RPC's business units, received training on internal auditing and helped RPC prepare for, and successfully obtain, ISO 9001:2015 accreditation. Quality is a core value and is essential to RPC's success. The accomplishments of this diverse team not only helped to achieve our goal but continues to make a substantial contribution to RPC's quality culture.

We continue to enjoy a productive relationship with the academic community, notably UNB where several of our scientists have adjunct professor status. We are active with senior projects and work term placements, and we have hosted some post doctorate scientists. Students gain applied science experience with summer employment at RPC. Some of these students are offered permanent employment with RPC.

RPC is working to address two significant challenges. The first is the replacement of our IT systems. A significant information technology upgrade project will be started in 2018-2019 that will lead to expanded capacity, enhanced productivity, and improved quality. This project is expected to be completed in early 2020.

The second challenge is our facilities. Enormous workloads and rapid growth have accelerated the end of life of key infrastructure. Planning is underway for RPC 3.0, a project to revitalize, enhance, and expand RPC. Federal-provincial funding founded RPC 1.0 with construction starting in 1964. Federal funding supported RPC 2.0, a significant

GROWING CONCERN: RPC's Cannabis Leadership

RPC has emerged as a leader in cannabis science, an accomplishment made possible with science expertise developed over decades. RPC is a leader in comprehensive microbiology, molecular biology, organic chemistry, inorganic chemistry and air quality testing. We began testing hemp in 1999, under licensed from Health Canada. When the Access to Cannabis for Medical Purposes Regulations were updated in 2013, there was immediate demand for analytical testing of cannabis, a natural progression for RPC. Led by a talented group of experts in our organic chemistry group, RPC developed a comprehensive test package and began offering it in early 2014.

Analytical testing represents the majority of RPC's activity in the cannabis industry, however, activity has grown to include demand for our Industry 4.0 services, edibles product testing, process testing, genetics and air quality. RPC's expertise and service has attracted clients from across Canada and has contributed to New Brunswick's efforts to create jobs and stimulate the economy.

expansion of labs completed in 1990. This year, an engineering assessment and building master plan was completed as well as an architectural concept for an expanded and renovated facility on the current RPC site. We are also exploring options for a new build on a new site. A consultant was engaged to develop an economic impact study. Funding for RPC 3.0 will be pursued in the coming year.

THE OUTLOOK

Renovation activity started during the past year will be completed in the coming year. We expect to complete and put into service:

- an expanded cannabis sample preparation lab;
- a new industry 4.0 automation lab;
- a new air quality lab.

RPC continues to build on service offerings and expects to launch several new accredited services in the coming year. We anticipate a further 10% growth in our client base, and revenues. If realized, this will be a cumulative 43% growth over the past 3 years, surpassing the capacity of our current facilities and limiting future growth, hence the need to prioritize RPC 3.0.

The economic outlook is uncertain due to ongoing trade actions and threats. However, there is promise for economic growth in the cannabis sector. Planned legalization will lead to increased production, productivity needs, new product development and other science and engineering needs (see *Growing Concern*, p. 4). Biotech, an element of the Sixth Wave of Innovation, will be of increasing importance. An example application is eDNA (see *Genetic Identity*, p. 9). Industry 4.0, the forth industrial revolution, has started and holds promise to improve Canada's productivity challenge (see *Manufacturing Success*, p. 10). In the longer term, RPC is preparing for increasing science needs in the arctic (see *Cold Case*, p. 7).

NOTES OF APPRECIATION

We are honoured to have the loyalty of our clients who chose RPC, and in doing so, choose value. Thank you. The positive feedback in our client surveys is inspiring and motivational.

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

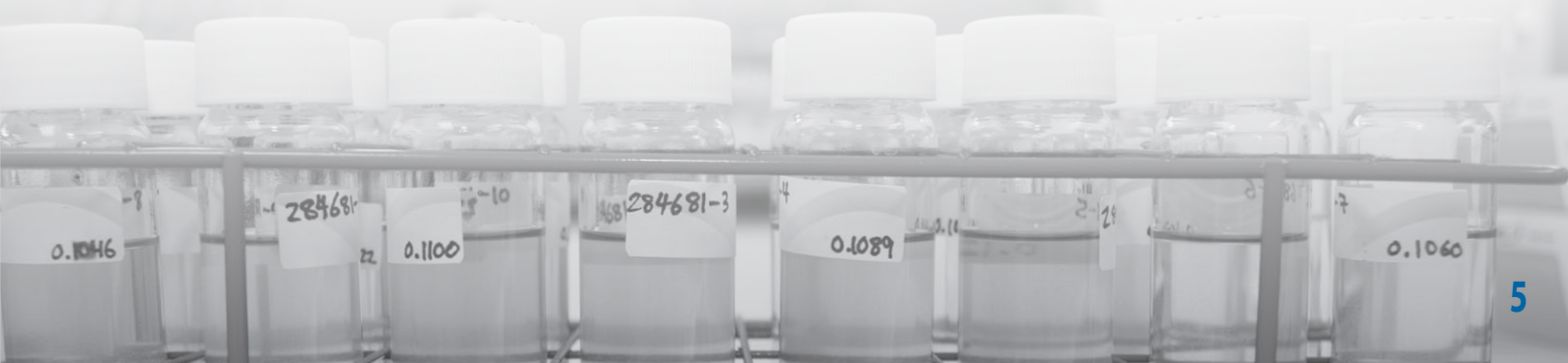
The guidance, support and oversight from our board of directors is essential to our success, and sincerely appreciated. Thank you for your commitment, your passion, and your thought leadership (see *RPC Board of Directors*, p. 10).

Finally, we express gratitude to RPC employees for their competency, professionalism and commitment to customer service (see *cover*). You are exceptional and directly contribute to RPC's success. Thank you. Employees reaching five-year service milestones were recognized at our annual merit and service awards (see *2017-2018 Employee Career Milestones*, p. 9).

The mandate of a Research and Technology Organization (RTO) is to provide innovation services to governments and businesses, in the interest of improving quality of life and building economic competitiveness. RPC remains focused on precisely that mandate and is continuing to grow in capability and capacity. This past year was exceptional, reaching new highs in revenue and number of employees. We look forward to further growth in the coming year.

Dr. Shelley Rinehart
Chairperson

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



ANNUAL PLAN GOALS FOR 2017-2018

RPC'S ANNUAL PLAN FOR 17-18 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 2017-2018 Annual Plan is summarized below.

I. Self-Sustaining Financial Performance with Continued Capital Investment

This objective was fully achieved. Both sales revenues and margin were better than forecasted and resulted in a modest net income (see *Consolidated Statement of Operations*, p. 14). The results include the full operating costs of the St. George laboratory and continued investments in capital.

Operating revenue grew to a record \$13.3 million, an increase of \$2 million, or 18%. This dramatic growth is attributed to success in cannabis analytical sales, growth in analytical sales to the provincial government, and overall growth in analytical sales to a diverse client base.

The Revenue Sources Profile (Chart 1) illustrates that the majority of RPC's sales revenue (77.5%) continues to come from industry. The remaining revenue is from all three levels of government including the provincial government (12.7%) which has rebounded to levels of the 1980s.

The Clients by Location (Chart 2) illustrates that 682 of RPC's 1157 clients (59%) were from New Brunswick. The remaining clients were regional, national, and international.

As illustrated in **Chart 3, Clients Served by Revenue**, RPC exported \$5.8 million of services from the province, helping to create and maintain employment within New Brunswick. This is up from \$5.4 million last year.

CHART 1: REVENUE SOURCES PROFILE

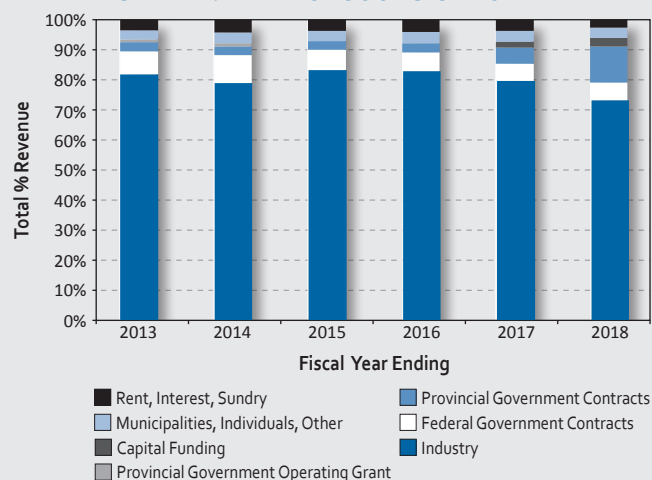


CHART 2: CLIENTS BY LOCATION

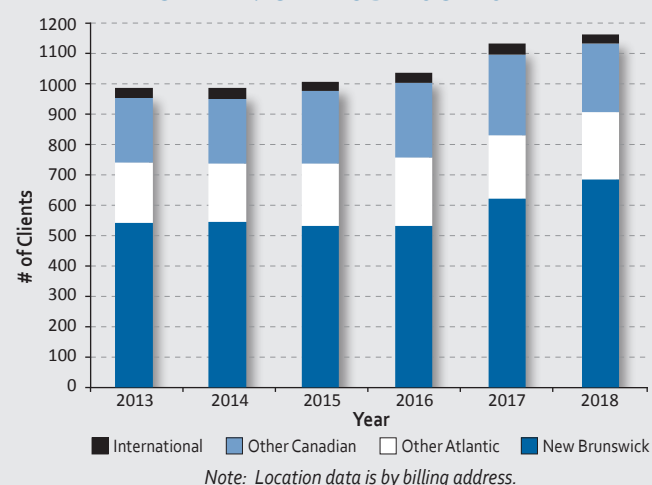
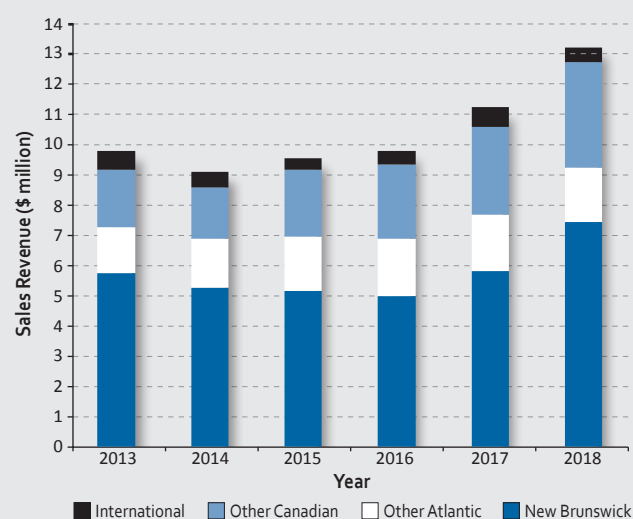


CHART 3: CLIENTS SERVED BY REVENUE



II. Growth in Services, Clients and Revenue

This objective was fully met. There was growth in our client base (from 1125 to 1157) and service offerings. RPC revenues continued to grow surpassing \$13 million and exceeding our target of \$12.8 million. A key to this success has been growth in the cannabis sector, however there was strong performance in all the analytical groups. Our engineering services saw continued weakness in the mining sector but good activity on a new Industry 4.0 service area.

III. Improved Communications and Business Development

Significant progress was made on this objective. RPC made a new hire in business development who is helping to increase our activities in meeting clients, identifying opportunities and increasing awareness. We targeted our top clients by sales for visits and meetings.

Trade show activity was increased with participation in several cannabis shows and water and wastewater shows as well as shows RPC participates in annually such as the Prospectors and Developers Association of Canada. We also maintained an active profile with social media, specifically LinkedIn and Twitter.

IV. Operations and Corporate Social Responsibility (CSR)

Good progress was made with the project to replace both our ERP and LIMS systems. Tentative solutions are identified, and a gap analysis has been completed. We expect to place orders and begin an 18-month implementation process in the Fall of 2018. A Director of IT was hired to facilitate this transformation.

A procurement specialist was hired to develop our tendering process for compliance with the Procurement Act. She provided introductory training to senior management.

An additional quality resource was hired, and she helped to prepare RPC for ISO 9001:2015. Our quality resources will also contribute to our planned balanced scorecard and 5S initiatives.

An employee engagement survey was completed, and key actions identified for work in the coming year. There were both positive/complementary comments and some areas to work on in training, communications and feedback.

RPC continued to be prominent in the community. The United Way Campaign is our primary corporate charity (*see United Effort, p. 3*). There was excellent participation and RPC surpassed its increased goal. There were also efforts in support of the food bank, and numerous charitable efforts led by employees and supported by RPC.

COLD CASE: Canadian High Arctic Research Station (CHARS)

Canada's arctic holds a wealth of natural resources and has a promising future as a significant economic driver. Development will require both an understanding of, and respect for, the environment. To support the research needed to gain an understanding of the arctic, the Canadian government commissioned the Canadian High Arctic Research Station (CHARS). RPC was among the first visitors as construction was nearing completion.

CHARS is strategically located on the Northwest Passage in Cambridge Bay, Nunavut. It is a comprehensive facility including energy generation, water and sewage infrastructure, residences and modern labs. Most impressive is the community engagement. The construction of a \$250 million research centre in a town of 1600 residents garners significant attention, but it was accomplished by engaging the community throughout the process and plans for community engagement during operation.

RPC is already involved in complex environmental analyses supporting northern research and environmental monitoring and we foresee continued growth in this area. In addition to environmental monitoring, cold climate engineering challenges, sustainable energy developments and green mining technology will all be in demand as northern development proceeds. All of the above require expertise and applied science, RPC's mantra.



RPC EMPLOYEES

2018 RPC MERIT AWARD

Launch of RPC Quality Team and Successful Achievement of ISO 9001:2015

This project is an excellent example of teamwork as it included members for each of RPC's operating departments. The team was assembled, received training and was tasked with leading the effort to help RPC become ISO 9001:2015 certified.

The 2015 accreditation required significant updates to the ISO 9001 standard including new elements. Documentation was prepared, procedures deployed and processes internally audited leading up to the successful external audit in March of 2018. RPC is now ISO 9001:2015 registered.

This team approach is consistent with RPC's quality philosophy in that quality is everyone's business.



2017-2018 Merit Award Team Members:

Back (L-R): Neri Botha, Jennifer Doucette, Chadwick Anderson, Sara Cockburn, Lisa Banks
Front (L-R): Melanie Lalonde, Bryan Bourque, Gillian Travis, Angie Guitard, Lisa Ferrish

2017-2018 EMPLOYEE CAREER MILESTONES

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

5 Years	Alex Kyle Neri Botha
10 Years	Rachael Arsenault Darren Tarr Nick Spinney
15 Years	Bruce Phillips Tony Wilkins Karla McLellan
20 Years	Julian Cristian Keith McLellan
30 Years	Frances Ferguson
35 Years	Rob McFee

RPC SENIOR MANAGEMENT TEAM

(as of June 30, 2018)

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

GENETIC IDENTITY:

Monitoring Microbial Communities with eDNA for Environmental Management and Ecosystem Health

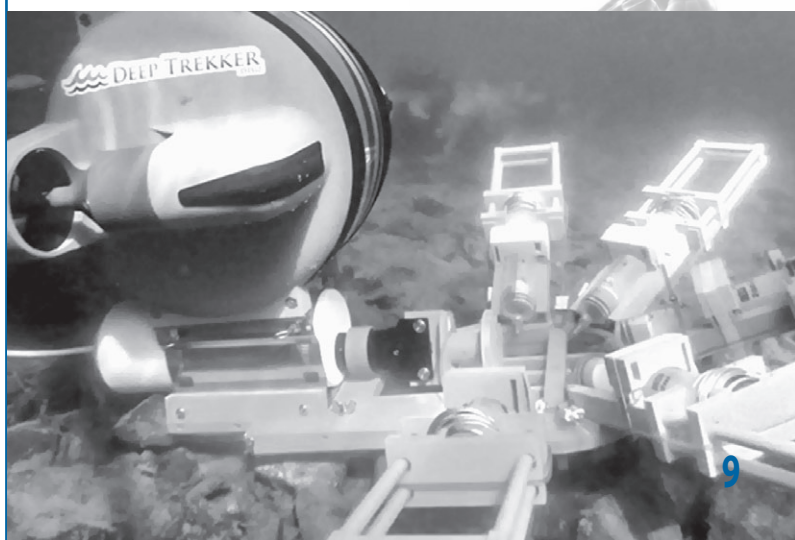
Environmental DNA or eDNA is DNA that is collected and extracted from holistic environmental samples rather than directly from individual organisms. The DNA may come from the individual organisms contained within these samples, or it may be free-floating DNA that has been shed by organisms in the area. Sampling and analyses can determine the environmental biodiversity within a sample and ongoing monitoring can be employed to establish a baseline for detection of changes to that environment over space and time.

RPC is working with Department and Fisheries and Oceans (DFO) scientists to study bacterial biodiversity in the marine environment in the Bay of Fundy in relation to anthropogenic stressors on ecosystems. This approach uses an innovative sampling device based on remote operated vehicle (ROV) technology developed by DFO to sample the surface of the sea bottom together with RPC's next generation sequencing capabilities for bacterial identification.

Results are very promising and are consistent with recent results from other initiatives going on internationally. The success is highly likely to result in further phases of the project. Ultimately, this could become a broad-based tool that can be widely used for environmental monitoring in a variety of habitats.

This is an excellent example of an eDNA application, made possible with next generation biotech analytics and creative approaches to large-scale questions.

(Photo Credit: S. Robinson Fisheries and Oceans Canada)



BOARD OF DIRECTORS (as of June 30, 2018)

Dr. Shelley Rinehart

Chairperson
Director MBA Program, UNB Saint John

Annette Comeau

CEO, LearnSphere

Janet Gagnon

(Retired) Vice President, ACOA New Brunswick

Dr. Levi Hargrove

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

Jeff Jennings

Owner, Strategic Directions

Cathy Larochelle

Deputy Minister, Agriculture, Aquaculture and Fisheries

Bernard Morin

President, Thermopak

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

MANUFACTURING SUCCESS: The 4th Industrial Revolution

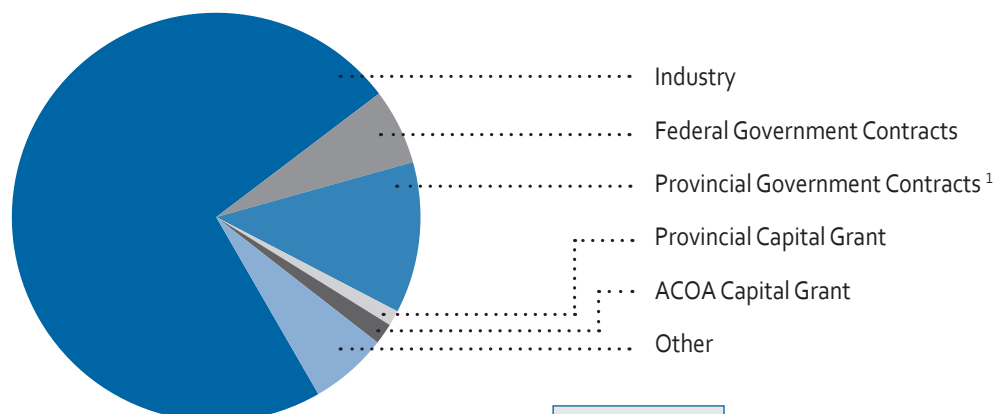
The Fourth Industrial Revolution, Industry 4.0, has begun. This phase involves cyber physical systems such as robots, machine vision and other technologies combined with the internet of things, machine learning, and big data, to result in smart factories. This may sound futuristic, however, advancements in technology have made applications more affordable and more user friendly. RPC has seized the opportunity to help manufacturers adopt and benefit from it. Early applications have been in what may be considered non-traditional sectors, including natural resources, resulting in an early installation in rural New Brunswick.

RPC participated in an Industry 4.0 tour hosted by Festo in Germany, the birthplace of Industry 4.0. The latest in technology was viewed in action and there were inspiring discussions on future developments.

RPC has an industry 4.0 lab under construction for completion in April 2018, and has acquired expertise in robotics, machine vision, machine learning, and supporting technologies. Industry 4.0 is applicable for SMEs and holds promise to make significant improvements in productivity and competitiveness.

REVENUE HIGHLIGHTS

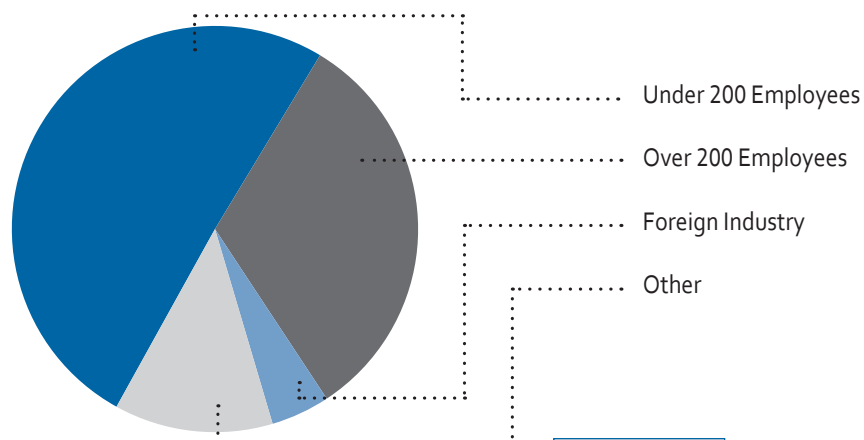
SOURCES OF REVENUE



	2017-2018	2016-2017
Industry	\$ 10,293,128	\$ 9,506,973
Federal Government Contracts	844,460	672,825
Provincial Government Contracts ¹	1,687,472	665,925
Provincial Capital Grant	173,281	107,692
ACOA Capital Grant	234,047	112,500
Other	866,680	894,836
Total	\$ 14,099,067	\$ 11,960,752

¹ Excludes provincial crown corporations such as NB Power.

DISTRIBUTION OF INDUSTRIAL REVENUE



	2017-2018	2016-2017
Under 200 Employees	\$ 5,208,375	\$ 4,483,187
Over 200 Employees	3,300,662	3,585,529
Foreign Industry	483,219	473,636
Other	1,300,873	964,621
Total	\$ 10,293,128	\$ 9,506,973



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, 2018, 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, 2018, 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
Fredericton, Canada
June 27, 2018

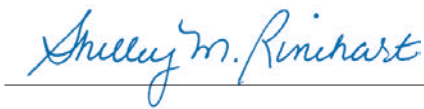
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

MARCH 31, 2018

ASSETS	2018	2017
Current assets		
Cash	\$ 1,249,360	\$ 936,908
Accounts receivable	2,400,018	2,972,944
Work in progress	75,771	270,500
Prepaid expenses	144,159	118,262
	<u>3,869,308</u>	<u>4,298,614</u>
Investments (Note 4)	6,961,287	7,210,390
Capital assets, net (Note 5)	7,287,670	7,091,441
	<u>\$ 18,118,265</u>	<u>\$ 18,600,445</u>
 LIABILITIES, DEFERRED CONTRIBUTIONS AND NET ASSETS		
Current liabilities		
Line of credit (Note 6)	\$ -	\$ 770,000
Accounts payable and accrued liabilities	1,355,133	1,167,890
Deferred revenue	334,517	144,982
	<u>1,689,650</u>	<u>2,082,872</u>
Deferred capital contributions (Note 7)	1,478,176	1,466,768
Employee future benefits (Note 8)	1,278,700	1,181,200
	<u>2,756,876</u>	<u>2,647,968</u>
Net assets		
Unrestricted	1,191,200	1,073,887
Internally restricted (Note 9)	6,671,045	7,171,045
Invested in capital assets	5,809,494	5,624,673
	<u>13,671,739</u>	<u>13,869,605</u>
	<u>\$ 18,118,265</u>	<u>\$ 18,600,445</u>

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, 2018

	2018	2017
REVENUE		
Operations	\$ 13,277,383	\$ 11,285,519
Restructuring transaction (Note 13)	-	1,825,506
Investment	376,353	391,702
Sundry	38,003	63,339
Project funding	172,651	-
Amortization of deferred capital contributions	234,677	220,192
	<u>14,099,067</u>	<u>13,786,258</u>
EXPENSE (Note 10)		
Operations	9,438,837	8,425,157
Administration	3,707,716	3,046,547
Amortization of capital assets	884,878	792,287
Foreign exchange	53,645	(26,556)
Bad debts	2,450	(21,106)
	<u>14,087,526</u>	<u>12,216,329</u>
EXCESS OF REVENUE OVER EXPENSE	<u>\$ 11,541</u>	<u>\$ 1,569,929</u>

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, 2018

	2018	2017
ACCUMULATED REMEASUREMENT GAINS, Beginning of year	\$ 1,343,257	\$ 1,090,501
Unrealized gains attributable to:		
Foreign exchange	(67,418)	112,683
Investments	(34,879)	291,466
Amounts reclassified to the statement of operations:		
(Gains) losses realized during the year	(160,755)	(124,837)
Foreign exchange	53,645	(26,556)
Change in accumulated remeasurement gains (losses) for the year	<u>(209,407)</u>	<u>252,756</u>
ACCUMULATED REMEASUREMENT GAINS, End of year	<u>\$ 1,133,850</u>	<u>\$ 1,343,257</u>

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, 2018

	Unrestricted	Internally Restricted	Invested in Capital Assets	Total 2018	Total 2017
BALANCE, Beginning of year	\$ 1,073,887	\$ 7,171,045	\$ 5,624,673	\$ 13,869,605	\$ 12,046,920
Excess of revenue over expense	11,541	-	-	11,541	1,569,929
Change in accumulated remeasurement gains (losses)	(209,407)	-	-	(209,407)	252,756
Purchase of capital assets	(1,081,107)	-	1,081,107	-	-
Amounts funded by capital contributions	246,085	-	(246,085)	-	-
Amortization of capital assets	884,878	-	(884,878)	-	-
Amortization of deferred capital contributions	(234,677)	-	234,677	-	-
Transfer (Note 9)	500,000	(500,000)	-	-	-
BALANCE, End of year	<u>\$ 1,191,200</u>	<u>\$ 6,671,045</u>	<u>\$ 5,809,494</u>	<u>\$ 13,671,739</u>	<u>\$ 13,869,605</u>

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31, 2018

	<u>2018</u>	<u>2017</u>
CASH PROVIDED BY (USED FOR):		
Operating activities		
Excess of revenue over expense	\$ 11,541	\$ 1,569,929
Items not involving cash:		
Amortization of capital assets	884,878	792,287
Amortization of deferred capital contributions	(234,677)	(220,192)
Assets received in restructuring transaction (Note 13)	-	(1,825,506)
Change in employees future benefits	97,500	79,200
Net change in non-cash working capital	<u>558,246</u>	<u>(506,034)</u>
	1,317,488	(110,316)
Capital activities		
Purchase of capital assets*	(945,067)	(2,262,997)
Financing activities		
Capital contributions*	697,085	551,698
Line of credit	<u>(770,000)</u>	<u>770,000</u>
	(72,915)	1,321,698
Investing activities		
Net change in investments	<u>12,946</u>	<u>905,772</u>
NET INCREASE/(DECREASE) IN CASH	312,452	(145,843)
Cash, Beginning of year	<u>936,908</u>	<u>1,082,751</u>
CASH, End of year	<u>\$ 1,249,360</u>	<u>\$ 936,908</u>

* Purchase of capital assets in the amount of \$165,836 (2017 - \$29,796) is included in accounts payable and accrued liabilities at year end. Similarly, capital contributions in the amount of \$141,984 (2017 - \$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 \$29,796 (2017 - \$10,045). 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, 2018

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 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 line of credit and 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 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 Pension 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 \$804,126 for the year ended March 31, 2018 (2017 - \$677,618).

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, 2018.

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, 2018.

(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

(i) Adoption of new accounting standard

On April 1, 2017, the Council adopted Canadian public sector accounting standards PS 2200 Related party disclosures, PS 3420 Inter-entity transactions, PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual rights. The adoption of these standards did not result in an accounting policy change for the entity, and did not result in any adjustments to the financial statements as at April 1, 2017.

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 \$2,400,018 at March 31, 2018 (2017 - \$2,972,944). The total receivables balance is net of an estimated allowance for doubtful accounts of \$77,212 (2017 - \$76,593).

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, 2018 would be limited to these balances:

Financial Instruments demoninated in USD

	2018	2017
Cash	\$ 672,045	\$ 376,845
Accounts receivable	28,182	163,763
Equity securities	325,311	397,585
Accounts payable	(11,401)	(15,093)
	<u>\$ 1,014,137</u>	<u>\$ 923,100</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	2018	2017
Equity securities	Level 1	\$ 2,573,270	\$ 2,840,587
Fixed income securities	Level 2	4,388,017	4,369,803
		<u>\$ 6,961,287</u>	<u>\$ 7,210,390</u>

There were no transfers between Level 1 and Level 2 during the year. Fixed income securities have interest rates from 1.7% to 3.1% (2017 – 1.7% to 4.55%) and mature between June 2018 and January 2023.

5. CAPITAL ASSETS

	2018			2017
	Cost	Accumulated amortization	Net book value	Net book value
Land and buildings	\$ 6,573,721	\$ 2,292,662	\$ 4,281,059	\$ 4,032,973
Operating equipment	12,350,856	9,439,321	2,911,535	2,958,031
Computer equipment	807,213	712,137	95,076	100,437
Vehicle	20,937	20,937	-	-
	<u>\$ 19,752,727</u>	<u>\$ 12,465,057</u>	<u>\$ 7,287,670</u>	<u>\$ 7,091,441</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 1st 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.

	2018	2017
Balance, beginning of year	\$ 1,466,768	\$ 542,278
Contributions	246,085	1,144,682
Amounts amortized to revenue	(234,677)	(220,192)
Balance, end of year	<u>\$ 1,478,176</u>	<u>\$ 1,466,768</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	3.70%	(2017 - 2.95%)
Salary increases	3.5%	(2017 - 3.5%)
Retirement age	Age 60	(2017 - Age 60)
Probability of excess sick leave usage	6.2%	(2017 - 6.2%)

	2018			2017		
	Retirement Allowances	Sick Pay Benefits	Total	Retirement Allowances	Sick Pay Benefits	Total
Accrued benefit obligation, April 1	\$ 1,319,900	\$ 109,300	\$ 1,429,200	\$ 1,249,200	\$ 110,200	\$ 1,359,400
Current service cost	53,500	9,900	63,400	57,800	8,300	66,100
Interest on obligation	39,400	3,300	42,700	36,100	3,200	39,300
Benefit payments	(22,100)	(7,300)	(29,400)	(22,000)	(20,200)	(42,200)
Actuarial (gain)/loss	(99,400)	32,200	(67,200)	(1,200)	7,800	6,600
Accrued benefit obligation, March 31	1,291,300	147,400	1,438,700	1,319,900	109,300	1,429,200
Unamortized actuarial loss	(89,800)	(70,200)	(160,000)	(206,500)	(41,500)	(248,000)
Accrued benefit liability at March 31	\$ 1,201,500	\$ 77,200	\$ 1,278,700	\$ 1,113,400	\$ 67,800	\$ 1,181,200

9. INTERNALLY RESTRICTED NET ASSETS

The Council's board of directors has internally restricted resources amounting to \$6,671,045 as at March 31, 2018 (2017 - \$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 a transfer of \$500,000 back to operating funds to support acquisition of assets for the year ended March 31, 2018, approved by the board on March 28, 2018 (2017 - \$0).

10. EXPENSES BY OBJECT

	2018	2017
Personnel	\$ 8,746,084	\$ 7,376,379
Supplies	1,621,182	1,174,098
Amortization of capital assets	884,878	792,287
Facilities	901,777	718,462
Rechargeable	548,810	665,078
Office	734,298	657,356
Other	31,935	112,380
Professional fees	527,306	394,093
Purchase of assets (Note 12)	-	339,000
Foreign exchange	53,645	(26,556)
Safety	35,161	34,858
Bad debt	2,450	(21,106)
	<u>\$ 14,087,526</u>	<u>\$ 12,216,329</u>

11. RELATED PARTY TRANSACTIONS

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>2018</u>	<u>2017</u>
Revenue from services provided for the year		
Government departments and agencies	\$ 1,687,472	\$ 608,852
NB Power and related entities	<u>448,490</u>	<u>410,985</u>
	\$ 2,135,962	\$ 1,019,837
Accounts receivable at 31 March		
Government departments and agencies	\$ 175,463	\$ 161,120
NB Power and related entities	<u>28,817</u>	<u>36,890</u>
	\$ 204,280	\$ 198,010

The Regional Development Corporation approved capital funding projects for the Council in the amount of \$91,114 (2017 - \$644,862) which is included in deferred capital contributions and \$63,329 (2017 - \$0) towards current expenses.

12. PURCHASE OF ASSETS

During the year ended March 31, 2017, 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

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

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