



# 2014-15 Annual Report

# Corporate & Executive Team Directory 2015

## BOARD OF DIRECTORS

**Judy Fairburn**

Board Chair  
Executive Advisor, Genovus Energy Inc.

**Dr. Tom Corr \*\***

Vice-Chair  
President and CEO, Ontario Centres of Excellence (OCE) Inc.

**Scott Fawcett \***

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Global Account Executive, GE Heavy Oil Solutions

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Retired Partner, KPMG LLP

**Kenneth (Ken) McKinnon \***

Director and Chair of the Governance  
and Compensation Committee  
Managing Partner, Citrus Capital Partners

**Dr. Amit Monga \*\***

Director  
Technology Entrepreneur & Executive Professor of Finance,  
Alberta School of Business

**Dr. Alan Winter \***

Director  
President and CEO, Genome British Columbia

## EXECUTIVE & SENIOR LEADERSHIP

**Stephen Lougheed**

President and CEO

**Sandra Scott**

Executive Vice President

**Cory Fries**

Vice President, Investments and Legal

**Caroline Conway**

Vice President, Organizational Effectiveness

**Bill Teeple**

Special Advisor to the CEO

**Dr. Don Back**

Vice President, Health Industry Sector

**Ross Chow**

Vice President, Oil and Gas Sector

**Barry Mehr**

Vice President, Food and Fibre Sector

**Richard Wayken**

Vice President, Pipeline Sector

**Denis Plumb**

Vice President, Finance

**Rollie Dykstra**

General Manager, Commercialization Services

**Marius Ghinescu**

General Manager, Applied Research

**Kirk Rockwell**

General Manager, Basic Research

\* Member of the Governance and Compensation Committee

\*\* Member of the Audit Committee

# Alberta Innovates - Technology Futures 2014-15 Annual Report

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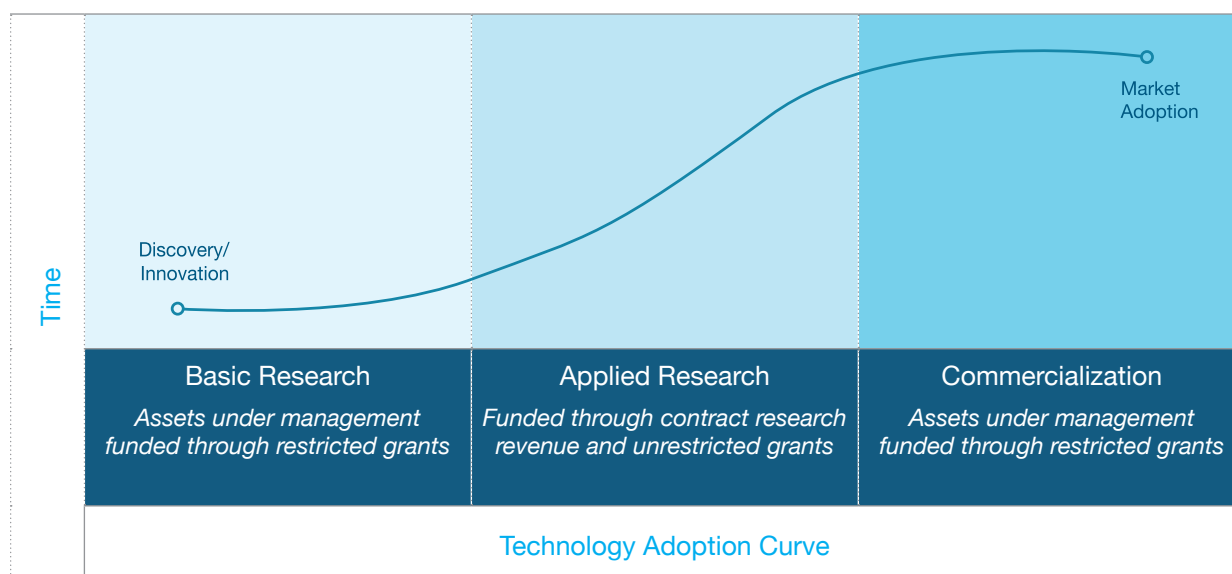
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# 1 Executive Summary

AITF's purpose is to build globally competitive commerce in Alberta through facilitating the commercial use of new technologies, developing new knowledge-based industry clusters, and supporting small and medium enterprises (SMEs) with innovative ideas to commercialize their technologies in Alberta. AITF achieves this by providing technical research and development support and advisory services, business innovation and talent development programs, and regionally accessible commercialization support for SMEs.

As a research and innovation entity we are unique in our ability to invest in any stage of the technology adoption curve, taking ideas from early stage discovery to innovative technologies ready for commercialization. AITF is positioned to not only support, but build new linkages between entrepreneurs, companies, researchers, and investors. These linkages are essential to building innovative and sustainable businesses in the Province and preparing Alberta for a next generation economy.

## **Moving from ideas to commercialization**



This was a significant and productive year for AITF. We designed and implemented a new operating model to take advantage of our unique capability to accelerate the commercialization of technologies, by aligning our operations with the three stages of the technology adoption curve (basic research, applied research, and commercialization). We then further connected our operations to the five strategic sectors within the Province's focus: environment, food and fibre (formerly food-ag and forestry), oil and gas, pipelines, and health. Grand Challenges have been developed for each of these five key sectors as a demand-pull approach to resolving the most pressing issues facing Alberta industry. The result is a more focused and unified active portfolio management approach across the organization that will ultimately yield a higher return on innovation for the Province.

AITF has a long history of collaboration with industry and government and views such collaboration as critical to the effectiveness of Alberta's innovation system and necessary to generate economic and social benefits for Alberta (ESBA). Our new operating model supports the sector Collaboratories created by Innovation and Advanced Education (IAE). AITF, as the key provincially-funded applied research organization in Alberta, will act as a support mechanism and enabler for the initiatives developed by the Collaboratories.

During the year AITF increased its focus on engaging and satisfying its customers and stakeholders by improving its commercialization programs and seeking customer feedback on these and other programs, improving portfolio management and governance processes, implementing a new performance management system, leading the development and implementation of Connectica (an online portal that allows entrepreneurs to navigate the innovation system within Alberta), and participating in numerous government and industry partnerships.

While great successes were achieved within AITF this year, AITF was not immune to the economic downturn in the Province caused by the significant decline in oil prices in 2014. As the oil and gas sector is the economic engine for the Province and a key customer segment for AITF, the impact of this decline was two-fold:

- Provincial revenues decreased, resulting in the reduction of future provincial funding to agencies such as AITF; and
- External contract revenue and product sales from AITF's oil and gas and pipelines customer segments, forming approximately 75% of total industry research revenues, experienced a rapid and steep decline due to depressed economics in the energy sector.

AITF managed the impacts of this downturn to the best of its ability and within its scope of influence. As neither of these impacts are expected to reverse in the near term, management moved prudently to manage expenses, particularly variable and discretionary costs, where possible. However, variable costs constitute only 10% of AITF's overall cost structure and the majority of AITF's provincial funding is restricted for specific programs within the assets under management side of our business. As a result, AITF has been limited in its ability to adapt its portfolio of programs and services to address evolving market conditions and manage its net operating results.

In addition to managing discretionary costs, management made the difficult decision to reduce its workforce by 6% (not including its subsidiary C-FER Technologies Inc.), and elected to leave additional budgeted positions vacant in an effort to reduce non-discretionary fixed costs as much as possible.

During the year, management also conducted a review of the applied research capacity and investment portfolio within AITF's health sector, and recognized there was insufficient demand in some areas, partly due to redundancies within the innovation system. As a result AITF has strategically reallocated its Health investments to focus on commercialization activities, specifically in the area of medical devices and improving data analytics within the sector.

Similarly, expenditures for capital assets were reduced by \$2 million below the original budget. This is a short term solution, and continues a trend of insufficient capital investment over multiple years. This puts AITF's ability to generate the required revenues to maintain ongoing, long term research and innovation programs at risk. Increased capital investment is required in future years. With roots back to 1921, AITF is one of the earliest and largest applied research facilities in Canada. It is critically important for the Province to sustain its past 94 years of investment and to safeguard ongoing access to applied research capabilities for both industry and government.

All of these financial pressures have impacted AITF's working capital and while levels are currently sufficient, the distinct downward trend suggests that without proper management, working capital may decrease below appropriate thresholds within two to three years. This risk must be managed to ensure AITF is maintained on a sustainable basis for the long term.

AITF is currently undergoing a review of its mandate, funding model and operations as part of the Effectiveness Review and Governance Review being undertaken by the Province. It is the strong desire of management and the board that the structure and funding model for AITF be assessed during this review with the objective of creating a more sustainable source of total funding for the future, consistent with the long-term mandate of AITF and the generation of economic and social benefits for the Province.

## Outlook for the Future

Despite the challenges presented by economic conditions and declining revenue streams, AITF is confident in the future. AITF is committed to fostering the conditions necessary for entrepreneurs and small medium enterprises to commercialize their technologies in Alberta. Our world class scientists, relationships with industry, ability to connect multiple parties, impressive portfolio of investments and applied research testing facilities will continue to generate economic and social benefits for Albertans. Moving forward AITF will continue to leverage Alberta's unique oil and gas capabilities, while actively investing in research and technologies that diversify our Province's future economic base.

## 2 Message from the CEO

Over the past five years, AITF has been an organization of change and evolution. As it has matured it has developed a clear vision of its purpose and value within Alberta's innovation system and identified a clear path to support economic and social benefits for Albertans (ESBA).

The evolution of AITF's organizational structure has been a necessary part of its transformation. Based on the innovation and technology adoption "S" curve, which takes a life cycle approach from technology discovery to market adoption, the new model reflects AITF's unique ability to invest at any stage in a technology's development. These investments are guided by Grand Challenges in five key sectors (oil and gas, environment, food and fibre, pipelines, and health) and were developed as a demand-pull approach to resolving the most pressing issues facing Alberta industry. AITF is moving toward active management of its portfolio of investments to enhance positive outcomes and increase economic diversification within the Province.

These Grand Challenges are expected to evolve as a result of collaboration with industry and government partners, including AITF's sister organizations: Bio Solutions, Energy and Environment Solutions, Health Solutions, and the Alberta Research and Innovation Authority. These collaborations will also serve to identify and fill gaps and reduce redundancies in Alberta's innovation system, an approach that is becoming increasingly important during this period of heightened fiscal restraint.

I would like to take this opportunity to extend my heartfelt gratitude to all AITF staff for their support and patience during this period of on-going change. Our focus on greater collaboration will increase professional development opportunities and job satisfaction for AITF's valued staff, and enhanced dialogue around AITF's investments and how these lead to ESBA. AITF has worked hard to establish a strong team to support this new model, which allows AITF to start executing in collaboration with other innovation partners.

Over the year AITF has had the opportunity to welcome many new faces to the organization and say goodbyes to others as they move on to new challenges. A warm welcome is extended to the new chair of the Board, Judy Fairburn, and thanks and best wishes to our departing chair, Ron Triffio, for his years of excellent service since AITF's creation in 2010. Best wishes are also extended to Stan Blade, the former CEO of Alberta Innovates - Bio Solutions, as he embarks on his new role as the Dean of the Faculty of Agricultural, Life and Environmental Sciences at the University of Alberta.

Amid the comings and goings of our valued colleagues, we also sadly acknowledge the sudden tragic loss of our friend and colleague Cy Frank, whose abundant contributions to the Province in his multiple roles as CEO of Alberta Innovates - Health Solutions, orthopaedic surgeon, scientific researcher, teacher, entrepreneur, and mentor were recognized internationally. Cy was a genuine innovator with a talent for understanding the system from discovery to implementation, and his vision and skill were truly unique. He will be deeply missed.

Moving forward, a number of priority areas have been identified for the coming year. These include: continued refinement of our organizational structure, internal processes, and system improvement; continued development of closer relationships with our customers; acceleration of innovation and commercialization activities to support success for our customers; building of long - term strategic relationships with industry partners and supporting the sector Collaboratories created by the Province. AITF is in a better position than ever before to take on these challenges and demonstrate the value it contributes to the Province's innovation system.

*[Original Signed By Stephen Lougheed]*

Stephen Lougheed  
President and Chief Executive Officer

## 3 Message from the Board Chair

### Judy Fairburn



As the new Chair of AITF's Board of Directors, I'm excited to be part of an organization that works with a wide range of partners to enable a strong technology and entrepreneurial culture across multiple sectors, creating benefit for Albertans now and in the future. AITF has a critical place in the Alberta economy through its roles as a centre of excellence across sectors in applied research and technology commercialization, provider of industry (particularly small business) programs, and as a collaborator within the innovation system. Innovation, environment and collaboration have been a guiding force in my career and are increasingly important as we look to position Alberta to be globally competitive in the years ahead.

I have had the opportunity to work closely with the oil and gas and other sectors towards innovative solutions for key oil sands challenges and was highly involved in the creation of Canada's Oil Sands Innovation Alliance (COSIA). I was the inaugural Chair of COSIA, served on various committees with the Canadian Association of Petroleum Producers (CAPP) and am also a Director with the Public Policy Forum. All of these experiences will support my ability as Chair to guide AITF to successfully fulfill its mandate.

Experience as the Executive Advisor at Cenovus Energy and previous executive/ senior leadership responsibilities have provided me with a deep understanding of the contributions the oil and gas sector makes to Alberta's economy. However, it is clear from recent economic trends that our heavy reliance on this sector makes Alberta's economy vulnerable to influences beyond our control. AITF's mandate to further innovation and global competitiveness across multiple sectors will enable economic and social benefits so Alberta continues to be a great place now and for future generations.

*[Original Signed By Judy Fairburn, PEng, MSc, MBA]*

Judy Fairburn, PEng, MSc, MBA  
Chair, Board of Directors

## 4 Accountability Statement

Alberta Innovates - Technology Futures' annual report for the year ended March 31, 2015 was prepared under the Board's direction in accordance with the Alberta Research and Innovation Regulation, and the ministerial guidelines established pursuant to the *Alberta Public Agencies Governance Act (APAGA)* – proclaimed June 12, 2013 and the *Fiscal Management Act* – proclaimed April 1, 2013. All material economic, environmental, or fiscal implications of which we are aware have been considered in the preparation of this report.

*[Original Signed By Judy Fairburn, PEng, MSc, MBA]*

Judy Fairburn, PEng, MSc, MBA  
Chair, Board of Directors

# 5 Reporting on Results

## A Conservative Approach to Performance Measurement

AITF, in conjunction with IAE, is looking at adopting enhanced key performance indicators to better showcase the value generated by AITF within the innovation system. In 2014-15, AITF has chosen to take a conservative approach to reporting on outcomes and only objectively quantifiable key performance measures will be used to demonstrate the value AITF generates for the Province. As a result, two measures previously reported under Performance Objective 3 have been removed: Economic Impact and Mandate Effectiveness. These measures require the use of assumptions and projections, and this impacts their ability to be measured and reported in a consistent manner.

In addition, more stringent methodology has been applied to the calculation of the Jobs Created performance measure reported under Performance Objective 3. This will ensure that the measure includes only jobs demonstrably created through AITF's funding programs or those confirmed by written attestations from industry as directly attributable to AITF. This approach ensures that AITF does not take credit for jobs created by other Innovation partners funded by AITF. As the target for 2014-15 was set using the original methodology, the attainment for 2014-15 is lower than the target originally set.

### Performance Objective 1

Alberta continues to attract and retain world-class, highly qualified and skilled people (HQ/SP) that form the foundation of an innovative jurisdiction.

**Outcomes:** AITF accelerates innovation in Alberta through funding Basic Research investments at the early stage of the Technology Adoption curve by supporting the attraction, education, training, and deployment of HQ/SP into Alberta's key economic sectors, and through directed research activities that will accelerate basic and applied research deployment.

Performance Measure	Actual 2013-14	Target 2014-15	Actual 2014-15
1a. Retention of HQ/SP <sup>1</sup>	64%	60%	64%
1b. Leverage of HQ/SP Funding <sup>2</sup>	3:1	3:1	4:1

<sup>1</sup> % of HQ/SP, through HQ/SP programs, retained in Alberta

<sup>2</sup> Ratio of AITF dollars to non-AITF dollars in HQ/SP funding areas

### Performance Objective 2

Alberta is a leader in applied R&D addressing both the immediate and long term needs of industry, as well as providing R&D capacity and expertise addressing key Government priorities.

**Outcomes:** Aligned to industry sectors, AITF's Applied Research Centres work with customers to accelerate technology investments so they more quickly move into system/subsystem incorporation. AITF industry sectors create and develop technologies linked to GoA strategic research and development priorities and aligned to industry needs such that they are able to move out into industry within the next three to five years.

Performance Measure	Actual 2013-14	Target 2014-15	Actual 2014-15
2a. Contract Revenue <sup>3</sup>	\$68.8M	\$74.0M	\$63.5M
2b. Account Retention <sup>4</sup>	57%	70%	53%
2c. Investment Leverage <sup>5</sup>	4:2	4:1	4:1

<sup>3</sup> Dollar value of total R&D contracts and Product Sales

<sup>4</sup> % of accounts (by revenue) retained year over year

<sup>5</sup> Ratio of provincial grant investment to total revenue

Contract research revenues and account retention were negatively impacted by sharp and rapid decline in price of oil this year.



## Performance Objective 3

Alberta leads Canada in the deployment and commercialization of innovative technologies by helping customers bring new products, technologies and production methods to the market.

**Outcomes:** AITF, through the efforts of its commercialization services and partners in the Regional Innovation Network, will make it easier for technology companies to start and successfully grow their businesses here at home, versus believing they need to relocate to other jurisdictions to be successful. This will result in more competitive companies, improved employment opportunities and economic sustainability for Alberta.

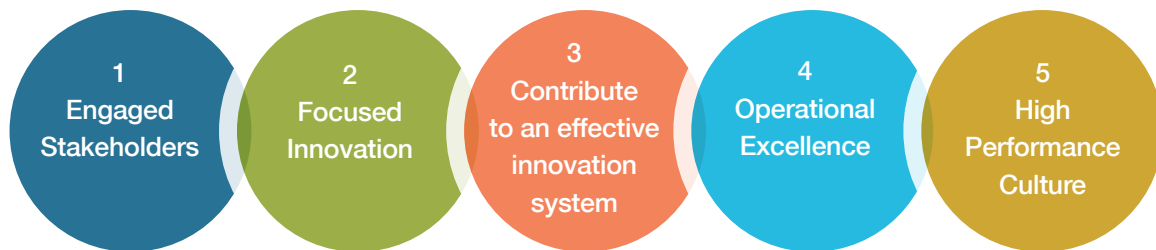
As noted above, recent changes to the criteria for inclusion of jobs in the Jobs Created performance measure resulted in actual achievement slightly below target. The new approach represents a shift toward more accurate and valid reporting. It is expected that future targets and actuals will be similar to the actuals from 2014-15 rather than targets and actuals established in prior years.

Performance Measure	Actual 2013-14	Target 2014-15	Actual 2014-15
3a. Jobs Created <sup>6</sup>	414	600	555

<sup>6</sup> Jobs created or saved directly attributable to work done by AITF for a customer or partner or a grant awarded by AITF to a grant recipient.

## A Year in Review

In 2013, AITF developed five long term strategic objectives to guide its delivery on its mandate and provide focus while building its new industry-oriented structure. These strategic objectives are:



During the 2014-15 fiscal year, AITF undertook a number of projects and initiatives toward achieving these strategic objectives. Select initiatives are presented below.

### Focusing on Client Satisfaction for Granting Programs (strategic objectives 1 2 3 )

A Client Survey was conducted this year for clients of AITF's funding programs in conjunction with a third-party market research group as part of AITF's goal to develop customer feedback mechanisms to drive continuous improvement and enhance the customer experience. The survey included customers from AITF's basic research and commercialization programs and covered a number of factors associated with the services provided by the programs, such as perceived impact of the support on the business, satisfaction with the representative, and overall helpfulness of the services.

The survey identified some gaps that AITF is looking to address in the coming years. However, results of the survey suggest participants in these programs are generally satisfied with the assistance they received from AITF. The results also demonstrate that gaps remain in terms of support available within Alberta's innovation system to meet all of the participants' needs at various stages of discovery, innovation, and commercialization. This indicates a need for more collaboration and analysis among innovation system partners to identify and fill existing gaps. Overall perceptions of helpfulness ranged across the programs but were generally quite high.

### *Key results for the Voucher and Product Demonstration Programs*

- Satisfaction with assistance from AITF: 82% very satisfied or extremely satisfied
- Overall experience with AITF: 90% very helpful or extremely helpful
- Proportion that developed new or enhanced existing products or processes due to AITF funding: 65%
- Proportion that believe AITF programs are enough to service their requirements: 55%

### *Key results for the Industry Commercialization and Research and Development Associates Programs*

- Satisfaction with assistance from AITF: 70% very satisfied or extremely satisfied
- Overall experience with AITF: 71% very helpful or extremely helpful
- Proportion that developed new or enhanced existing products or processes due to AITF funding: 93% of Research and Development Associates program participants
- Proportion that added new customers or markets or increased sales: 80% of Industry Commercialization Associates program participants
- Proportion that believe AITF programs are enough to service their requirements: 48%

### *Key results for the Industry, Strategic and Collaborative Chairs, and Entrepreneur Accelerator Programs*

- Satisfaction in the collaborative effort with AITF: 85% very satisfied or extremely satisfied
- Overall experience with AITF: 92% very helpful or extremely helpful
- Proportion that felt their work will lead to commercialization: 83%
- Proportion that believe development or commercialization was reduced by: up to five years: 50%; more than five years: 33%

## **Improvements to Commercialization Programs (strategic objectives 1 2 3 4 )**

A number of changes were initiated within AITF's commercialization programs to enhance service to SMEs. These include:

- Refocusing services around mentorship as well as operational and strategic guidance by leveraging Technology Development Advisors (TDAs) and Program Associates as key contacts in addition to providing funding;
- Implementing periodic program reviews under the continuous improvement umbrella;
- Significantly reducing the approval process by transitioning from a quarterly call to an open call approach, effectively removing the artificial closing dates for submission and allowing ongoing submission for funding and other support;
- Streamlining the application review and approval process and introducing an online submission tool;
- Shifting the voucher program from set funding of \$15K or \$50K to scalable funding amounts customized to the precise needs of the applicant ranging from nil to \$100K;
- Gaining support from the Province to reallocate funding between industry support programs to ensure resources are available where there is high demand;
- Adding links to supply chain resources to support connectivity between customers and suppliers; and,
- Implementing accelerator pilots and inter-jurisdictional programs to enhance and accelerate commercialization.

These changes have refocused program efforts and enhanced strategic investment in our customers. Each investment was carefully considered to provide support to SMEs with processes or technologies with a high potential for success as well as enhancing ESBA.

These changes were positively received by SMEs and clients in Alberta as highlighted through a customer survey undertaken in early 2015 and were implemented by collaborating with the Province to design meaningful program changes.

### Improved portfolio management (strategic objectives 1 4 )

During the year, AITF launched a Portfolio Management Process to support enhanced reporting on AITF's diverse investment portfolio. This process shifts reporting from the purely financial to a more holistic and strategic approach driven by the Portfolio Management group. The function has three overarching objectives: strategic alignment, optimization of returns and strategic balance.

Strategic alignment means the portfolio supports the needs of industry and the Province, helping them with their most pressing technology and innovation challenges. Optimization of returns means the portfolio achieves the best aggregate economic and social benefits for Albertans. Strategic balance means AITF maintains an appropriate mix of investments, keeping in mind multiple factors such as time, risk and diversification across industry sectors.

Under this process, each investment requires the use of a consistent corporate business case and the consideration of multiple perspectives. AITF successfully completed its first Corporate Portfolio Report this year, allowing the board and executive to have enhanced visibility and decision making ability.

### Investing in the Canadian Pipeline Technology Collaborative (strategic objectives 1 3 )

The Canadian Pipeline Technology Collaborative (CPTC) was established in 2014 as a national initiative to unite pipeline operators, researchers, technology providers, and supply chain partners to pursue responsible advancement of pipeline operations and technology development. AITF has played a key role in co-leading this initiative, and has seconded the Vice President of AITF's Pipeline Sector as CPTC's interim CEO. This positions AITF's pipeline sector leader in an external facing role with government, industry and regulators to make long term, collaborative and coordinated decisions. Management believes this collaborative multiple-organization approach is necessary to make meaningful change and ensure sustainability. CPTC can be used as a model for similar collaborations in all sectors.

### Continuous improvement in governance (strategic objectives 4 5 )

During the year, AITF undertook a redevelopment of its policies, which are anticipated to be finalized in June and rolled out in August, 2015. This review was driven by AITF's focus on continuous improvement and is based on improving the governance structure as a foundation for all other operations. Prior to this undertaking, these policies had not undergone a comprehensive review since the 2010 merger. Outcomes of this project will be strengthened controls and governance based on best practices and aligned with AITF's high performance culture and compliance requirements.

### Talent management (strategic objective 5 )

AITF implemented its new performance management system, a strategic initiative to support organizational realignment, coordinate activities and behaviours with the new operating model, and increase the likelihood of achieving the desired outcomes. The new approach will drive a shift from historically-present silos to a one-AITF model. Key aspects of this system include:

- A consistent performance management process across the entire organization with direct links to corporate performance objectives
- Use of the performance management process as a driver for career development and growth
- Succession planning and talent management as a strategic long term business objective focusing on attraction, retention and talent development to support a high performance culture

The aging demographics of AITF's workforce and the eventual retirement of long-service highly qualified and skilled people (HQ/SP) is a significant risk, and this new approach is a key component of AITF's risk mitigation strategy.

## Driving connections through Connectica (strategic objectives 1 3 4 )

Connectica, a new online portal that launched in January 2015, represents a significant step forward in terms of connecting all the players in the innovation system. Prior to Connectica there was no single point of contact to connect those requiring resources with those offering support. Individuals and organizations were left to search out and vet each funding source individually, a time consuming and often frustrating endeavour. The Connectica tool walks both organizations with services to offer or businesses looking for funding or other support through Alberta's innovation system to find partners to support or supplement their work.

Significant resources and investment are available to support innovation in the Province but this has not historically been managed and coordinated in a manner that maximizes outcomes and ESBA. This is the key problem that Connectica will resolve. As Connectica has only recently been implemented for public use, the next step is to raise the profile of this tool by increasing awareness and usage among both supporters and innovators. While AITF led the development and implementation of Connectica, this tool is not exclusive to AITF's programs or clients.

## Enhancing C-FER facilities to drive results (strategic objectives 2 3 )

In 2014, AITF's subsidiary, C-FER Technologies, leased a new \$14 million research and testing facility to further enhance Alberta's leadership in advancing technologies that increase safety and improve efficiency in support of responsible resource development. This new facility features:

- A full-scale underground leak simulator for liquid pipelines
- One of the world's largest deep water pressure vessels
- A first of its kind indoor tailings testing facility
- An ultra-high load testing system for pipelines

The 40,000 square foot building expands and enhances AITF's capabilities to qualify and de-risk technologies before they are implemented in the field and supports our ability to bring industry, government and regulators together to solve challenging problems.

This new facility is directly responsible for C-FER obtaining in 2014 the largest contract in its history, the Alaska LNG project, because the new facility provides ample space to assemble the equipment.

## Materials and Reliability in Oil Sands (MARIOS) (strategic objectives 1 3 )

The Alberta oil sands are one of the largest oil reserves in the world, and is a major resource for the Canadian economy. It is estimated that the oil sands sector spends over \$3 billion on maintenance every year and forfeits another \$5 to \$7 billion in lost revenue due to both scheduled and unscheduled shutdowns. As a result, there is a clear incentive for oil companies and their supply chain to improve the run-life and reliability of components, equipment and processes in their operations. To address this need, AITF initiated the Materials and Reliability in Oil Sands (MARIOS) program in February 2009.

MARIOS is an industry led R&D consortium managed by AITF, whose goal is to develop knowledge and new technologies for the oil sands industry to significantly improve materials performance, run life of critical equipment/components, operational reliability and productivity, while reducing operating costs and production stoppages.

Since its inception, the MARIOS consortium has grown to over 40 members composed of oil sands producers, companies in the oil sands supply chain (e.g. material and equipment suppliers, service companies, fabricators, technology providers & engineering firms), and government organizations. This unique model brings the entire sector together to solve problems collaboratively, and allows solutions to be readily adopted by industry. Projects are selected by the oil sands operators and are managed by AITF in conjunction with the members. The program helps Alberta-based SMEs develop a better understanding of the challenges faced by the Province's oil sands sector and provides opportunities for SMEs to engage the oil sand operators and supply chain companies.

This year the MARIOS consortium made numerous advances in the areas of wear-resistant overlays, welding, slurry pipeline systems and corrosion in in-situ operations. In addition, a Small and Medium Enterprise (SME) engagement program was successfully piloted in 2014-15, with full implementation planned for 2015-16.

### Diversifying Alberta's economy (strategic objectives 2 3 )

While the oil and gas and pipeline sectors form approximately 75% of AITF's contract revenues, AITF is also highly focused on supporting innovation and commercialization in its other key sectors of food and fibre, environment and health. Examples of some of the food and fibre investments include:

- Engineered Wood Composite Products: AITF is working with Oriented Strand Board (OSB) mills to develop new products and markets, reduce production costs and improve competitiveness. AITF has recently undertaken an initiative with Ainsworth OSB to reopen previously closed mills in Grande Prairie to produce value-added OSB products for Asia markets.
- Supporting Canola producers: AITF is working with Alberta farmers to identify and produce canola specifically destined for export to China. As China has imposed strict regulations around canola imported from Canada due to concerns over blackleg contamination, AITF is providing both the testing facilities and expertise to test varieties of canola to ensure continued access to this important market.
- Alberta Biochar Initiative: AITF has established pilot scale biochar production and testing facilities in Vegreville and has conducted numerous lab tests and field trials validating the beneficial attributes of biochar as a soil productivity amendment and as a carbon sequestration agent. More recently, AITF researchers have started working with industry to develop advanced functionalized biochar-based technologies for environmental remediation, including mercury capture from stack emissions, naphthenic acid and TOC removal from tailings pond, settling of fines in tailings ponds, etc.

# 6 Management's Discussion and Analysis

The discussion and analysis of the operations of Alberta Innovates-Technology Futures (AITF) for the year ended March 31, 2015 should be read in conjunction with AITF's 2014-2015 audited consolidated financial statements. The 2014-2015 audited consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting standards.

## Forward-Looking Statements

This Annual Report contains forward-looking statements about the objectives of AITF and management's expectations, beliefs, intentions, and strategies for the future.

All forward-looking statements related to future events reflect management views at March 31, 2015 and are subject to certain risks, uncertainties and assumptions. Actual results, performance and/or achievements may materially differ from any such forward-looking statements. Risks, uncertainties and assumptions include, but are not limited to: general economic conditions (particularly the price of oil); actions by government authorities; actions by regulatory authorities; availability of staff; foreign exchange rates; competitor activity; pricing pressures; and significant major catastrophic natural events.

Assumptions and commentary presented in this report are also based on the assumption that AITF will continue to operate in its current structure for the foreseeable future. AITF is currently undergoing a review of its mandate, funding model and operations, and the outcome of this review may have additional unanticipated impacts.

## Corporate Profile

Established in January 2010 as a Provincial Corporation (as defined in the Financial Administration Act) and operating under the authority of the Alberta Research and Innovation Act, AITF supports research and innovation activities targeting the development and growth of technology-based sectors in alignment with Government of Alberta priorities.

AITF is accountable to the Minister of Innovation and Advanced Education. C-FER Technologies Inc. is a wholly owned subsidiary of AITF.

Alberta Innovates was conceptualized as a mechanism to align, focus and optimize provincial research and innovation investments and efforts. Technology Futures collaborates with its sister Alberta Innovates Corporations (Bio Solutions, Energy & Environment Solutions, and Health Solutions) within the Alberta Research and Innovation System. Strategically aligned to the direction of the Government of Alberta, the Innovation System supports: effective resource and environmental management; a broadened economic base; and, resilient and healthy communities.

## Core Business

AITF is part of Alberta's research and innovation system and is helping build healthy, sustainable businesses in the Province. Through a suite of programs and services directed towards entrepreneurs, companies, researchers and investors, AITF is preparing Alberta for a next generation economy.

AITF's business is to build globally competitive commerce in Alberta through:

- Facilitating the commercial use of new technologies;
- Developing new knowledge-based industry clusters; and
- Encouraging an entrepreneurial culture in Alberta

<i>Technical Services</i>	<i>Funding Programs</i>	<i>Regionally Accessible Commercialization Support</i>
Helping organizations develop their technologies more quickly and efficiently	Fostering an entrepreneurial culture and increasing Alberta's critical mass of innovation talent	Making connections and pointing businesses and entrepreneurs in the right direction
<ul style="list-style-type: none"> <li>100,000 m<sup>2</sup> of product/process development and scale-up facilities in the areas of petroleum, environment and carbon management, bio and industrial technologies</li> <li>300 hectare research farm, three greenhouses, and 36 growth chambers</li> </ul>	<ul style="list-style-type: none"> <li>Post-secondary programs offer a broad range of support to researchers at all stages of their careers, from graduate students to the world's top researchers</li> <li>Industry programs offer support to Alberta-based SMEs in a variety of ways to help accelerate their growth and success</li> </ul>	<ul style="list-style-type: none"> <li>Alberta Regional Innovation Network System – an integrated province-wide system ensuring SMEs and innovators have access to vital services and resources to help them succeed</li> </ul>

During 2014-2015, AITF evolved its operational model founded on the principles of the innovation and technology adoption curve, also known as the “S” curve, with investments made at the basic research, applied research, and commercialization stages.

The basic research and commercialization stages are funded primarily by restricted grants from the Province of Alberta and are largely assets under management. As a result of restrictions placed on these assets, funding provided for these programs cannot be reallocated to other programs or used for operations outside their restricted scope of application. The applied research stage is funded through revenue from contract research industry revenue and unrestricted government funding. Revenue generated in this stage of research and development is highly concentrated in the oil and gas sector, and is therefore vulnerable to changing economic conditions and oil prices.






The operating model links the stages of the technology adoption curve to the five strategic sectors within AITF's focus: environment, food and fibre, oil and gas, pipelines, and health. This model results in a more unified approach across the organization and increases organizational effectiveness as well as economic and social benefits for Albertans (ESBA). The model has also been designed to align with the Collaboratory projects driven by IAE, for which AITF, as the key provincially-funded applied research organization in Alberta, acts as a support mechanism and enabler.





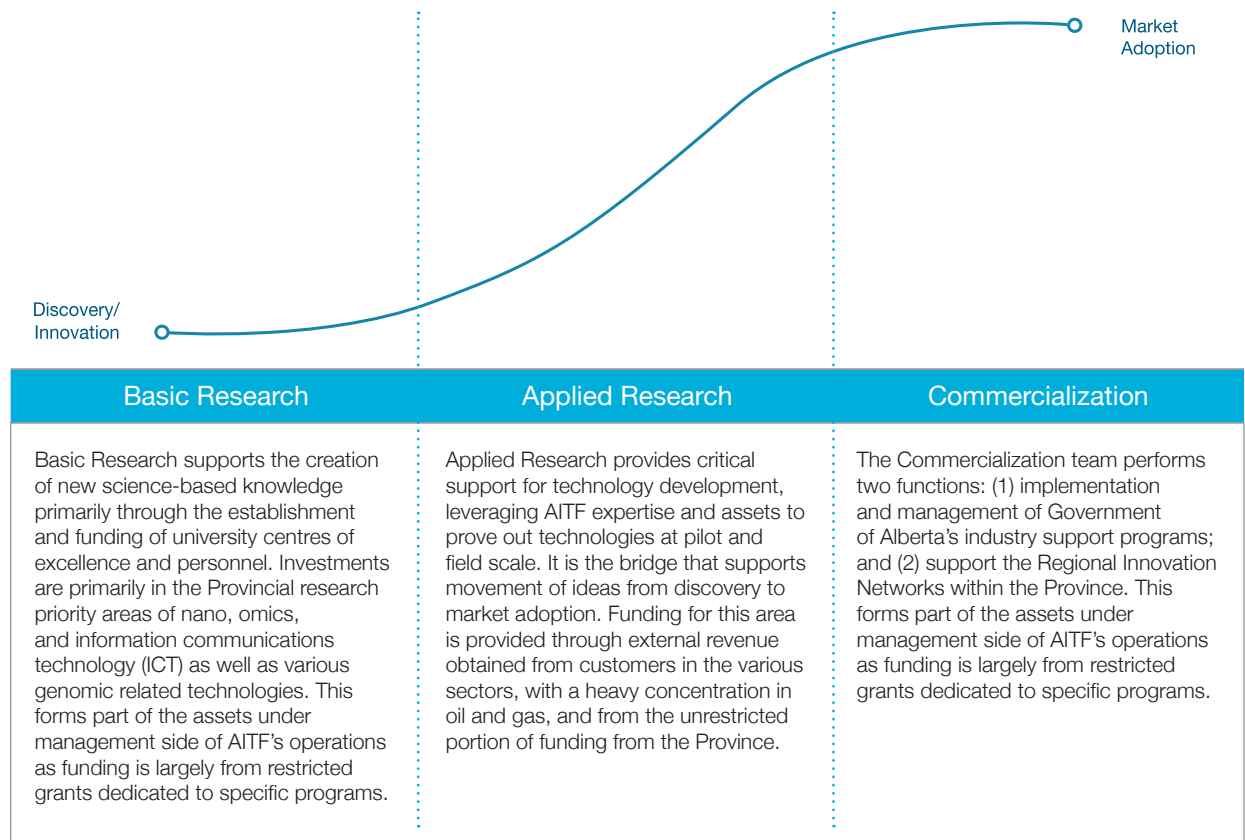
## Sector Grand Challenges

For each sector, specific grand challenges have been issued to help focus investments within AITF. These grand challenges are designed to be long term living challenges, flexible to change and refinement as partnerships and the needs of industry and the Province evolve. The Grand Challenges for each sector, as defined in the 2015-18 business plan, are presented below.

 Oil and Gas	 Environment	 Food and Fibre (formerly Food-Ag and Forestry)	 Pipelines	 Health
<ul style="list-style-type: none"> <li>• Increase Alberta's reserves by 30% by 2030.</li> <li>• Decrease operational inputs for production by 1/3.</li> <li>• Increase the value of bitumen.</li> <li>• Decrease the environmental impact of production.</li> </ul>	<ul style="list-style-type: none"> <li>• By 2030, Alberta is globally recognized as a leader in managing resource development to sustain environmental integrity.</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainably increase domestic and export revenue from Alberta's food and fibre manufacturing industries in response to domestic and Pacific North Rim market demand.</li> <li>• Optimize and increase manufacturing productivity to reduce costs and improve competitiveness.</li> <li>• Optimize food and fibre feedstock output while maintaining social license to operate.</li> </ul>	<ul style="list-style-type: none"> <li>• Enhance and demonstrate integrity, safety, and environmental performance to make Alberta a global leader in pipeline construction and operations.</li> </ul>	<ul style="list-style-type: none"> <li>• Transform a reactive system to a preventative health and wellness system by 2030.</li> </ul>

## Stages on the Innovation and Technology Adoption Curve – Financial Model

AITF's financial model is broadly based on the "S" curve of the technology adoption model as follows:





## Financial Results

### Operating Results

Actual operating results for the year ended March 31, 2014 and 2015 are summarized below along with the 2014-15 and 2015-16 budgets and include the consolidated results for AITF and its wholly owned subsidiary, C-FER Technologies Inc.

#### **Consolidated Statement of Operations**

<i>\$ in thousands</i>	<b>2013-14 Actual</b>	<b>2014-15 Actual</b>	<b>2014-15 Budget</b>	<b>2015-16 Budget</b>
Government transfers				
Unrestricted grants from the Province of Alberta	45,590	41,940	41,940	41,722
Restricted provincial grants	38,083	43,498	54,482	57,455
Other provincial grants	6,999	10,407	9,725	10,230
External contract revenue	58,843	55,614	61,637	50,046
Contract revenue from Province of Alberta	4,169	3,495	5,221	4,077
Product sales	5,748	4,375	7,184	2,731
Other revenue	2,149	870	700	790
Total revenue	161,581	160,199	180,889	167,051
Salaries, wages and benefits	73,248	74,901	82,429	71,470
Grants	46,528	56,344	61,742	63,517
Subcontractor	13,005	13,520	14,933	7,862
Material and supplies	5,560	5,308	6,062	6,581
Amortization	3,787	4,613	4,422	5,258
Travel and hospitality	3,145	2,742	3,809	3,484
Maintenance and rental	2,416	2,183	2,066	1,976
Occupancy costs	1,051	1,678	1,876	1,306
Office misc. and other expenses	6,939	6,822	9,418	9,114
Total expenses	155,679	168,111	186,757	170,568
Annual operating surplus (deficit)	5,902	(7,912)	(5,868)	(3,517)

### Revenue

For 2014-15, AITF's total revenue was \$160.2 million. The largest revenue categories are:

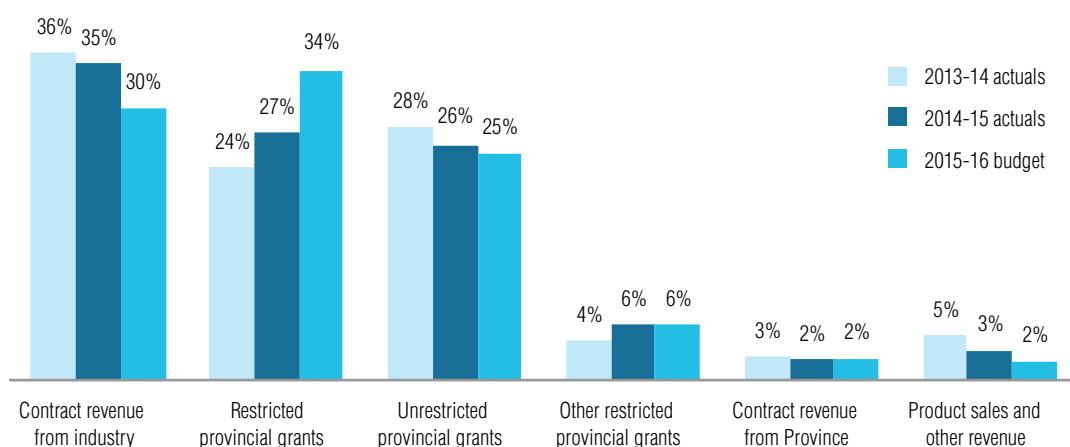
- Contract research revenue of \$59.1 million. Of this 94%, or \$55.6 million, is from industry clients, with the remaining 6%, or \$3.5 million, from government clients.
- The annual core funding of \$85.4 million from the Province of Alberta, which is provided to AITF in two segments: unrestricted and restricted. Restricted funding is used to operate the assets under management, i.e., basic research and commercialization programs, which AITF operates on behalf of the Province. The unrestricted portion of the Province's annual core funding to AITF is vital to maintain stability, support successful industry consortia, and generate additional longer term research support from other government and industry sources. AITF strives to maintain long term strategic research and development capacity on behalf of the Government of Alberta while ensuring relevance through market discipline and industry linkages.
- Other provincial grants of \$10.4 million are restricted grants from the Government of Alberta for specific programs outside of the core funding.
- Product sales of \$4.4 million are largely sales of made-to-order sensors to the oil and gas industry, and consists of relatively few, high-dollar-value transactions. This revenue stream declined as a result of the downturn in the oil and gas sector as companies reduced their capital budgets and is not expected to recover in the upcoming year, as shown by the 2016 budget of \$2.7 million, a decline of 37.6% compared to 2014-15 actuals.

Grant funds were used to make awards of \$56.3 million to support product and market development and the commercialization needs of industry, post-secondary institutions and other innovation partners. AITF provided \$5.4 million in support to other regional delivery providers to create a pan-Alberta approach to commercialization and accelerated growth within technology-based organizations and networks.

Total revenue for 2014-15 was approximately \$20.7 million lower than budget due to multiple factors including decreased restricted grants from the Province (\$11.0 million lower than budget). Unexpended restricted grants are recorded as deferred revenue on the Statement of Financial Position and will be recognized as revenue in future years. Other major contributors to decreased total revenue include lower contract revenue and product sales, which are discussed in detail below.

The following chart analyses the proportion of AITF's total revenue arising from each of these sources over the last two years and looks ahead to the upcoming fiscal year:

### Revenue allocation as a percent of total revenue



As shown above, both external contract revenue from industry and the unrestricted funding from the Province of Alberta declined in 2014-15 relative to 2013-14, and is expected to decline further in the upcoming fiscal year. As a result of the declining economic conditions in the Province, AITF has become more reliant on government funding, which now represents 60% of total revenues. This represents an increase from 56% in 2013-14 and 52% in 2012-13. At the same time, the proportion of restricted provincial grants has increased, which reduces AITF's ability to adapt its portfolio of programs and services to meet evolving market conditions, and manage its net operating results. Unrestricted funds from the core funding decreased by \$3.7 million (\$45.6 million in 2013-14 vs. \$41.9 million in 2014-15) or 8% between 2013-14 and 2014-15, a trend that is expected to continue in the next budget cycle. Since most of AITF's expenses are fixed in the short term, declines in both contract research and unrestricted core funding have a disproportionately negative impact on AITF's net operating results.

### External revenue by sector\*

\$ in thousands	2013-14 Actual	2014-15 Actual	2014-15 Budget	2014-15 Variance
Oil & Gas	30,486	27,058	35,547	8,489
Pipeline	21,077	20,389	20,439	50
Environment	10,339	10,197	9,992	(205)
Food-Ag	1,534	2,828	3,398	570
Forestry	2,048	1,701	2,324	623
Health	3,719	590	1,854	1,264
Other	1,706	1,591	1,188	(403)
Total external revenue	70,909	64,354	74,742	10,388

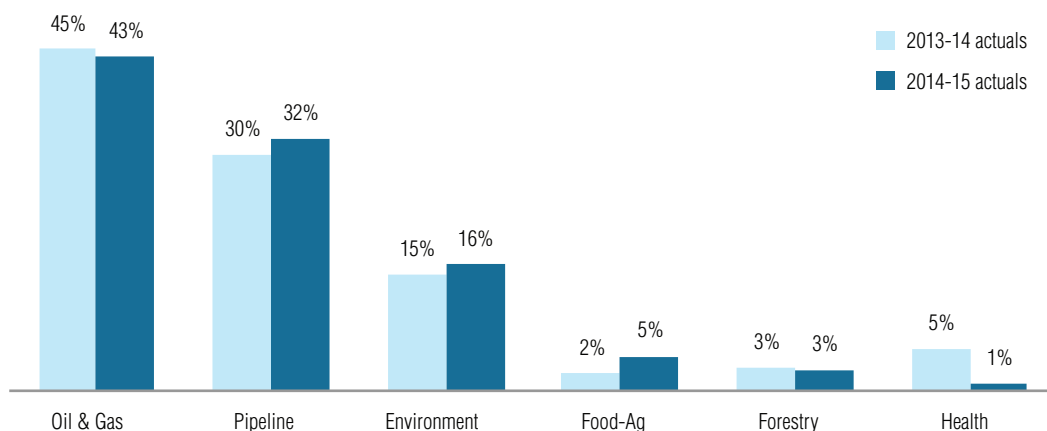
\* Note: This excludes government transfers.

External revenue, excluding government transfers, primarily associated with applied research activities was \$10.4 million lower than budget (\$74.7 million budget vs. \$64.3 million actual) and was driven by three sectors: oil and gas, pipeline and health. The largest declines were seen in the oil and gas and pipelines sectors, as revenue from these sources were significantly impacted by depressed oil prices and the resulting decrease in discretionary spending such as R&D and capital. As shown in the table above, total revenue from the oil and gas sector was nearly \$8.5 million below budget. The variances are amplified as 2013-14 was a strong year for participants in this sector, resulting in higher budget expectations during the planning process.

During the year, management conducted a review of the research capacity within the health sector, and recognized there was weak demand for these services partly due to redundancies within the innovation system. As a result management eliminated or reallocated research capacity to higher demand streams, and budgeted health revenues declined as depicted in the chart below. This reallocation enabled AITF to focus resources on areas expected to generate higher ESBA (economic and social benefits for Albertans) outcomes for the Province. AITF's 2015-16 budget for health initiatives primarily relates to funding for SME programs and supporting the Health Research and Innovation Collaboratory through the Health Sector office.

Other contributors to decreased revenue were reduced contract revenue from the Province (\$1.7 million lower than budget) and lower product sales (\$2.8 million lower than budget).

**Allocation of external revenue by sector\***



\* Note:  
 (1) 2015-16 budget information is not available due to the reorganization of AITF's financial system.  
 (2) This excludes government transfers.

The above chart shows the proportion of external revenue provided by each sector. In 2014-15, revenue from the oil & gas and pipeline sectors represented three-quarters of AITF's total external revenue. The heavy reliance on these sectors for external revenue is a known risk to AITF which management is actively working to mitigate. These sectors were hardest hit by declining oil prices and are vulnerable to future fluctuations. Sectors that are seen to benefit from the lower Canadian dollar such as food-ag and forestry currently represent 8% of AITF's external revenue.

## Expenses

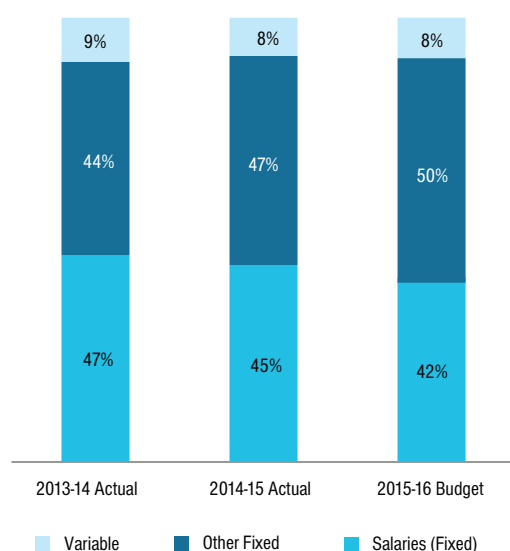
### Total Expenses

\$ in thousands	2013-14 Actual	2014-15 Actual	2014-15 Budget	2015-16 Budget
Salaries, wages and benefits	73,248	74,901	82,429	71,470
Grants	46,528	56,344	61,742	63,517
Subcontractor	13,005	13,520	14,933	7,862
Material and supplies	5,560	5,308	6,062	6,581
Amortization	3,787	4,613	4,422	5,258
Travel and hospitality	3,145	2,742	3,809	3,484
Maintenance and rental	2,416	2,183	2,066	1,976
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Total expenses	155,679	168,111	186,757	170,568

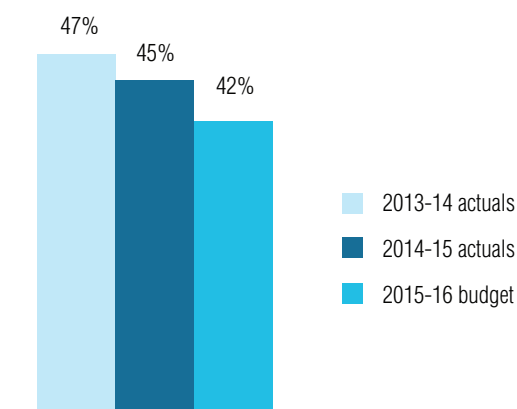
Over the long-term all costs are variable and discretionary as an organization can adjust its funding model and cost structure to adapt to changing market conditions. This is not the case in over the short-term. As a publicly funded research and innovation organization managing a portfolio of investments with long development cycles AITF's largest expense category is, salaries, wages and benefits. These are fixed over the short-term unless reductions to long-term programs are considered.

After the sharp decline in oil prices in the summer of 2014, management moved to prudently manage expenses, particularly variable and discretionary costs, where possible. Half of AITF's materials and supplies, travel and hospitality, subcontractor and office expenses are deemed to be variable costs in the short-term. As shown in the chart below this represents around 8%, a relatively small proportion, of AITF's overall cost structure. This is not surprising due to the nature of AITF's business model. Similar to other professional services firms our largest cost is accessing the expertise and skills required by clients, and the majority of our costs are fixed in the short-term.

**Variable vs. fixed expenses as a proportion of total expenses**



**Salaries, wages and benefits expenses as a percentage of total expenses**



In order to offset declining revenues, salaries, wages and employee benefits were closely monitored throughout the year. These costs were \$74.9 million for the fiscal year, \$7.5 million lower than budget due to two factors. First, management reviewed its operations and streamlined areas of low demand or duplication of services within the innovation system and made the difficult decision to reduce staff. The number of full time equivalents declined from 520 at April 1, 2014, to 487 at March 31, 2015, a decrease of 6% due to the

elimination of positions at AITF (these numbers do not include AITF's subsidiary C-FER Technologies Inc., because no positions were eliminated there). Second, previously budgeted hires were significantly reduced. Looking forward, both of these management decisions, while difficult at the time, were appropriate and necessary. AITF's core grant from the Province decreased by approximately 5% in the 2015 -16 budget and contract research revenues are not anticipated to recover until the larger Alberta economy recovers.

As of March 31, 2015, 46% of AITF's employees are included in the bargaining unit. The Collective Agreement for this unit was renewed for a 4.5 year period from April 1, 2013 to September 30, 2017.

Despite the above changes, the salaries, wages and employee benefits will continue to remain the largest expense category within AITF due to the nature of the business. AITF's core strength is the expertise and experience of its dedicated researchers and staff. AITF's experts are well known within industry and external research contracts typically arise as the result of relationships developed by individual staff members. Further reductions in this area would negatively impact succession planning, staff morale, and on-going revenue streams. Following the reorganization and streamlining already undertaken, AITF is committed to promoting stability and security for its people.

Grants awarded were \$56.3 million, which was \$5.4 million lower than budget. This was in part due to AITF's increased diligence in the review of applications to ensure grants awarded have a higher probability of generating economic and social benefits for Alberta (ESBA). This reduction is expected to reverse itself in future years due to increased visibility of these programs to the entrepreneurial sector in the Province through strides made with Connectica and AITF's commercialization team.

Other expenses, including subcontractors, materials and supplies, amortization, travel and hospitality, maintenance and rental, occupancy costs, legal, patent, insurance, and utilities were \$5.7 million lower than budget due to efforts within AITF to constrain expenditures during the fiscal year.

### *Directly incurred expenses*

Expenses by sector are presented in the following table.

#### **Expenses by sector**

<i>\$ in thousands</i>	<b>2013-14 Actual</b>	<b>2014-15 Actual</b>	<b>2014-15 Budget</b>
Funding programs	49,481	61,521	67,624
Oil and gas	44,369	41,806	50,744
Pipelines	26,180	27,814	26,302
Environment	16,797	17,935	17,993
Food-Ag	5,371	7,828	7,703
Forestry	7,067	5,773	7,205
Health	6,414	5,434	9,186
Total expenses	155,679	168,111	186,757

Not unexpectedly, the highest sector expenses are associated with the oil and gas (\$41.8 million) and pipeline (\$27.8 million) sectors. The environment sector (\$17.9 million) saw the third highest level of sector spending with health, food and agriculture, and forestry at lower levels (\$5.4 million, \$7.8 million, and \$5.8 million, respectively). Expenses for funding programs totaling \$61.5 million were related to grants for basic research and commercialization that are not designated for specific sectors. However, sector alignment does naturally occur due to the nature of the Alberta economy.

### *Annual operating surplus*

The annual operating deficit was \$7.9 million compared to a budgeted deficit of \$5.9 million. This variance is driven by the reduced unrestricted grant and external revenue (\$20.7 million lower than budget), which was partially offset by reduced total expenditures during the period (\$18.7 million below budget).

## Financial Position

### **Consolidated statement of financial position**

<i>\$ in thousands</i>	<b>2013-14 Actual</b>	<b>2014-15 Actual</b>	<b>2014-15 Budget</b>	<b>2015-16 Budget</b>
Assets				
Cash	70,274	55,765	37,822	37,658
Accounts receivable and other assets	16,542	21,455	23,000	23,000
Provincial grants receivable	-	2,400	-	-
Tangible capital assets	30,883	31,022	33,320	31,414
Total assets	117,699	110,642	94,142	92,072
Liabilities				
Accounts payable and accrued liabilities	19,582	14,705	15,200	15,200
Unearned revenue	7,966	7,681	21,100	21,100
Deferred revenue	36,441	42,458	10,000	13,888
Total liabilities	63,989	64,844	46,300	50,188
Net assets				
Net assets beginning of year	47,808	53,710	53,710	45,401
Annual operating surplus (deficit)	5,902	(7,912)	(5,868)	(3,517)
Net assets end of year	53,710	45,798	47,842	41,884
	117,699	110,642	94,142	92,072

### Assets

#### *Cash and working capital*

AITF's cash position at March 31, 2015 was \$55.8 million, which is \$17.9 million higher than budget but is \$14.5 million lower than the prior year due to the increase in deferred revenue and a decrease in demand for contract research services in the last half of the year. This resulted in more prudent management of discretionary spending as an active effort to partially offset this decreased external revenue.

#### **Working capital**

<i>\$ in thousands</i>	<b>2013-14 Actual</b>	<b>2014-15 Actual</b>	<b>2014-15 Budget</b>	<b>2015-16 Budget</b>
Cash	70,274	55,765	37,822	37,658
Accounts receivable and other assets	16,542	21,455	23,000	23,000
Provincial grants receivable	-	2,400	-	-
Accounts payable and accrued liabilities	(19,582)	(14,705)	(15,200)	(15,200)
Unearned revenue	(7,966)	(7,681)	(21,100)	(21,100)
Deferred revenue	(36,441)	(42,458)	(10,000)	(13,888)
Net available working capital	22,827	14,776	14,522	10,470

As a result of decreased current assets, working capital in 2014-15 (\$14.8 million) decreased relative to 2013-14 (\$22.8 million) by approximately \$8.1 million. This is expected to further decrease in the 2015-16 fiscal year as revenues are not expected to improve in the short term. As previously discussed, expenses are largely fixed in the short term unless major structural changes are undertaken. Internal policy indicates that approximately \$5 million in working capital should be maintained, and while current levels are in excess of this minimum, a significant downward trend is seen from 2013-14 actuals to the 2015-16 budget. This suggests that without proper management working capital may decrease below this threshold within two to three years. This risk must be managed within AITF to ensure sustainable operations, and the board and management are actively monitoring AITF's financial position.

As current liabilities include unearned and deferred revenues, AITF has sufficient assets to cover its liabilities as represented by the current (1.7) and quick (1.2) ratios. Management monitors its liquidity position on a regular basis to ensure AITF is operating at a reasonable level of liquidity.

Accounts receivable and other assets were slightly lower than budgeted and provincial grants receivable totaled \$2.4 million at the end of the fiscal period (\$nil in 2013-14).

### *Capital Assets*

Tangible capital assets were lower than budget as a result of reduced investment in the period. Investment in capital assets declined in 2014-15 (\$4.8 million) relative to 2013-14 (\$5.6 million) and was lower than the budgeted investment by \$2.0 million. This reduction in capital spending was meant to exercise fiscal restraint in the near term, but increased capital expenditures will be required in future years. A sustained lack of investment in capital comes at a risk to AITF. Current capital spending levels are approximately equivalent to amortization and do not support technological advancement and investment in the cutting-edge technology key to the work AITF performs. Adequate capital investment is an expectation and requirement of industry customers and is necessary to protect the critical applied research capacity established by the Province.

It is important to note AITF's operations encompass 1 million square feet of product, process development and scale-up facilities in Edmonton, Calgary, Devon and Vegreville. These facilities are owned and operated by Alberta Infrastructure and are not capitalized on AITF's statement of financial position. In 2014-15, the cost incurred by Alberta Infrastructure to maintain these facilities was approximately \$20.0 million.

### *Other Assets*

Total AITF assets were \$110.6 million, a decrease of \$7.1 million compared to 2013-14. This decrease was primarily the combined result of lower cash on hand (\$14.5 million) offset by higher accounts receivable from third parties and prepaid balances from the prior year. Aging of accounts receivable at year-end shows 15% over 90 days (19.7% in 2013-14), and provincial grants receivable are related to funding that has been committed but has yet to be received by AITF.

Accounts payable decreased by \$4.9 million in the current year due to cost control measures undertaken in the last quarter. Deferred revenue associated with restricted grants increased by \$6.0 million compared to 2013-14 due to a decrease in grant expense.

### *Liabilities*

Accounts payable and accrued liabilities were lower than budget, continuing a downward trend from 2013-14. This was primarily the result of decreased purchases associated with contract revenue and discretionary expenses. Accrued bonuses were also significantly lower than previous years and budget, with senior management foregoing all performance pay and reduced performance pay accrued for remaining staff. Unearned revenue consisting of contract research revenue from industry for services not fully rendered as at March 31, 2015, was significantly lower than budget (\$7.7 million compared to the budgeted amount of \$21.1 million) but is relatively consistent with the previous year.

The deferred revenue liability was \$42.5 million at March 31, 2015, \$32.5 million higher than budget. This revenue represents contractually committed grant funding, generally associated with basic research and commercialization activities, and is restricted to the specific programs for which it is granted.

### *Net Assets*

AITF's net assets at the end of the 2014-15 fiscal period were \$45.8 million, \$2.0 million below the budget (\$47.8 million) and \$7.9 million below the value of net assets at the end of 2013-14 (\$53.7 million). Forecast net assets for the 2015-16 fiscal year show a further reduction in net assets to \$41.9 million by the end of the year. These decreases in net assets are due to the annual operating deficits experienced in 2014-15 and expected in 2015-16.



## Outlook

AITF has transitioned its operating model to more effectively deliver on its mandate and maximize its generation of economic and social benefits for Albertans (ESBA). Looking forward, AITF will continue to assess and modify this new structure to support enhanced collaboration between AITF and its sister Alberta Innovation corporations, other innovation partners and Innovation and Advanced Education. This will involve not only seeking opportunities for partnerships to enhance delivery of services, but also opportunities to reduce redundancies and redirect resources to underserved areas of Alberta's innovation system.

The 2015-16 operating budget shows \$37.7 million in cash and \$41.9 million in net assets.

The budget for 2015-16 indicates \$167 million in total revenue, including \$41.7 million in unrestricted grants and \$57.5 million in restricted grants from the Province. External contract revenue from businesses is budgeted at \$50.0 million, a \$5.6 million decrease from 2014-15 actuals. Alberta Government contract revenue is expected to be \$4.1 million, which is consistent with the 2014-15 budget. Product sales are budgeted at \$2.7 million, a decrease of \$1.6 million relative to 2014-15 actuals. Revenue from both industry and government is expected to be lower than previous years due to the heavy reliance on the struggling oil and gas sector as an economic driver for the Province as well as a key customer segment for AITF. Product sales are similarly impacted by challenges in this sector, resulting in lowered expectations in the near term.

Aside from the staffing reduction made in the last quarter of 2014-15, expenses are expected to remain relatively consistent with 2014-15 actuals (budgeted at \$170.6 million) resulting in a smaller annual operating deficit of \$(3.5) million compared to the deficit of \$(7.9) million experienced in 2014-15. Longer term forecasts indicate continued deficits in 2016-17 and 2017-18.

These longer term deficits need to be addressed during the Effectiveness Review currently being undertaken by IAE. It is the desire of management and the board that the structure and funding model of AITF is assessed during this review with a view towards creating a more sustainable source of total funding for the future, consistent with the long-term mandate of AITF and the generation of economic and social benefits for the Province.

## Enterprise Risk Management

AITF is exposed to many factors that could adversely affect its operations and outcomes. As part of the Enterprise Risk Management process, senior management identifies risks pertaining to the organization's stakeholders, markets, financial circumstances, and operations. Additional risks and uncertainties of which AITF is not aware may also become important factors that adversely affect AITF.

### Declining revenue streams from both industry and government

Given AITF's mandate and the long term nature of research and innovation, AITF must keep critical human and infrastructure assets in place as both industry and the Province recover from the current economic downturn. AITF, like the Province itself, has a significant reliance on the oil and gas sectors for contract research revenues. As such, when this sector faces a downturn AITF feels the impact through both the core government funding as well as contract research revenue streams. With declining revenue streams from both industry and government partners, the ability to adequately invest in AITF's essential resources is jeopardized. A delicate balance must be struck between initiating cost reductions while continuing to nurture and protect future research and commercialization outcomes and support long term diversification of Alberta's economy.

### Aging workforce and succession planning in critical areas

With a significant number of staff at or near retirement, succession planning in critical areas poses a challenge to AITF's continued success and sustainability. Many employees have highly specialized skills and experience that are not easily reproduced or replaced. AITF's operating plan and budget allows for replacement of key individuals as they choose to retire, and management has plans to continue to strengthen succession planning in the most vulnerable areas of operation.



## Coordination of activities within Alberta's innovation system

AITF strongly supports the Collaboratory model and will continue to work with IAE to raise awareness of potential areas of redundancies, duplication or insufficient allocation of resources within the innovation ecosystem.

## Aging capital and technology infrastructure

Due to the mandate of AITF and its role in technology commercialization, AITF has limited sources of capital and is heavily dependent on the Government of Alberta for capital funding to maintain the required facilities and infrastructure for the applied research side of the business. With the current economic downturn and declining government funding, management has made the strategic decision to under-invest capital in the current year with an eye to reversing this trend in the near future. Underinvestment in technology advancement presents a risk relative to meeting the needs of industry customers who have expectations around the level of technological sophistication of their service partners. This also presents a risk more globally around the Province's ability to support the movement of ideas from discovery to market adoption. It is recognized that the Province has many competing priorities for very limited infrastructure investment dollars. As AITF is reliant on government funding for all capital expenses this is a key risk facing AITF.

*The Management Discussion and Analysis is dated as of May 27, 2015.*

# 8 Audited Consolidated Financial Statements

March 31, 2015

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# 7 Management's Responsibility for Reporting Statement

Alberta Innovates - Technology Futures' management is responsible for the preparation, accuracy, objectivity, and integrity of the information contained in the annual report including the consolidated financial statements, performance results, and supporting management information. Systems of internal control are designed and maintained to produce reliable information that meet reporting requirements, and to ensure that transactions are executed in accordance with all relevant legislation, regulations and policies, reliable financial records are maintained, and assets are properly accounted for and safeguarded. The annual report has been approved by the Board of Directors and is prepared in accordance with ministerial guidelines.

The Auditor General of the Province of Alberta, AITF's external auditor appointed under the *Auditor General Act*, performs an annual independent audit of Alberta Innovates - Technology Futures' consolidated financial statements in accordance with Canadian generally accepted auditing standards.

*[Original Signed By Stephen Lougheed]*

Stephen Lougheed  
President and Chief Executive Officer

*[Original Signed By Denis Plumb]*

Denis Plumb, CMA  
Vice President, Finance

# Auditor's Report



## Independent Auditor's Report

To the Board of Directors of Alberta Innovates - Technology Futures

### Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of Alberta Innovates - Technology Futures, which comprise the consolidated statement of financial position as at March 31, 2015, and the consolidated statements of operations and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Alberta Innovates - Technology Futures as at March 31, 2015, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

*[Original Signed By Merwan N. Saher, FCA]*

Auditor General  
May 27, 2015  
Edmonton, Alberta

## Consolidated Statement of Financial Position

As At March 31, 2015  
(dollars in thousands)

	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
Cash (Note 5)	\$ 55,765	\$ 70,274
Accounts Receivable and Other Assets (Note 6)	23,855	16,542
Tangible Capital Assets (Note 7)	31,022	30,883
	<b>110,642</b>	<b>117,699</b>
<b>Liabilities</b>		
Accounts Payable and Accrued Liabilities (Note 8)	14,705	19,582
Deferred Contract Revenue (Note 9)	7,681	7,966
Deferred Revenue (Note 9)	42,458	36,441
	64,844	63,989
<b>Net Assets</b>		
Accumulated Operating Surplus	45,798	53,710
	<b>\$ 110,642</b>	<b>\$ 117,699</b>
<b>Contractual Obligations</b> (Note 10)		

The accompanying notes and schedules are part of these consolidated financial statements.

Approved by the Board of Directors

*[Original Signed By Judy Fairburn, PEng, MSc, MBA]*

Judy Fairburn, PEng, MSc, MBA  
Board Chair

*[Original Signed By J. Douglas Gilpin, FCA, ICD.D]*

J. Douglas Gilpin, FCA, ICD.D  
Director and Chair of the Audit Committee

## Consolidated Statement of Operations

For the year ended March 31, 2015  
(dollars in thousands)

	2015 Budget	2015 Actual	2014 Actual
<b>Revenues</b>			
Government Transfers			
Government of Alberta Grants	\$ 41,940	\$ 41,940	\$ 45,590
Restricted Provincial Grants	54,482	43,498	38,083
Other Provincial Funds	9,725	10,407	6,999
External Contract Revenue	61,637	55,614	58,843
Contract Revenue from Province of Alberta	5,221	3,495	4,169
Product Sales	7,184	4,375	5,748
Investment Income	700	870	917
Other Revenue	-	-	1,232
	180,889	160,199	161,581
<b>Expenses – Directly Incurred</b> (Note 2 (b) and Schedule 1)			
Funding Programs	67,624	61,521	49,481
Oil & Gas	50,744	41,806	44,369
Pipeline	26,302	27,814	26,180
Environment	17,993	17,935	16,797
Food-Ag	7,703	7,828	5,371
Forestry	7,205	5,773	7,067
Health	9,186	5,434	6,414
	186,757	168,111	155,679
<b>Annual Operating Surplus</b>	<b>\$ (5,868)</b>	<b>(7,912)</b>	<b>5,902</b>
<b>Accumulated Surplus, Beginning of year</b>		<b>53,710</b>	<b>47,808</b>
<b>Accumulated Surplus, End of year</b>		<b>\$ 45,798</b>	<b>\$ 53,710</b>

The accompanying notes and schedules are part of these consolidated financial statements.

## Consolidated Statement of Cash Flows

For the year ended March 31, 2015  
(dollars in thousands)

	<b>2015</b>	<b>2014</b>
<b>Operating Transactions</b>		
Annual Operating (Deficit)/Surplus	\$ (7,912)	\$ 5,902
Non-Cash Items:		
Amortization of Tangible Capital Assets	4,613	3,787
Deferred Revenue Recognized as Revenue	95,845	90,672
Loss on Disposal of Tangible Capital Assets	16	45
Impairment of Tangible Capital Assets	38	-
	92,600	100,406
(Increase)/Decrease in Accounts Receivable and Other Assets	(7,313)	3,809
Decrease in Accounts Payable and Accrued Liabilities	(4,877)	(4,435)
(Decrease)/Increase in Deferred Contract Revenue	(285)	689
Decrease in Deferred Revenue	(89,828)	(79,224)
Cash (Applied to)/Provided by Operating Transactions	(9,703)	21,245
<b>Capital Transactions</b>		
Acquisition of Tangible Capital Assets	(4,847)	(5,557)
Proceeds on Sale of Tangible Capital Assets	41	95
Cash Applied to Capital Transactions	(4,806)	(5,462)
<b>(Decrease)/Increase in Cash</b>	<b>(14,509)</b>	<b>15,783</b>
<b>Cash, Beginning of Year</b>	<b>70,274</b>	<b>54,491</b>
<b>Cash, End of Year</b>	<b>\$ 55,765</b>	<b>\$ 70,274</b>

The accompanying notes and schedules are part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

Year ended March 31, 2015

## NOTE 1 AUTHORITY AND PURPOSE

Alberta Innovates - Technology Futures (AITF) is a Provincial Corporation, as defined in the Financial Administration Act, that was established on January 1, 2010 and operates under the authority of the *Alberta Research and Innovation Act*. The objects of AITF are to support, for the economic and social well-being of Albertans, research and innovation activities targeted at the development and growth of technology-based sectors and aligned to Government of Alberta priorities, including, without limitation, activities directed at the commercialization of technology and the application of knowledge.

AITF is exempt from Canadian federal and Alberta provincial income taxes.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards.

### a) Reporting Entity and Method of Consolidation

These consolidated financial statements reflect the assets, liabilities, revenue and expenses of AITF and its wholly owned subsidiary, C-FER Technologies (1999) Inc. All intercompany balances and transactions have been eliminated on consolidation.

### b) Basis of Financial Reporting

#### i) Revenue Recognition

All revenues are reported on the accrual basis of accounting. Cash received for which goods or services have not been provided by year end is recorded as deferred revenue. Externally restricted revenue is recognized as revenue in the period in which the resources are used for the purpose specified. Funds received prior to meeting the criteria are recorded as deferred revenue until the resources are used for the purpose specified.

#### ii) Government Transfers

Transfers from the Government of Alberta, federal and other governments are referred to as government transfers.

Government transfers are recorded as deferred revenue if the terms for use of the transfer, or the terms along with AITF's actions and communications as to the use of the transfer, create a liability. These transfers are recognized as revenue as the terms are met and, when applicable, AITF complies with its communicated use of the transfer.

All other government transfers, without terms for the use of the transfer, are recorded when the transfer is authorized and AITF meets the eligibility criteria (if any).

#### iii) Contract and Other Revenue

Contract revenue is recognized using the percentage of completion method. AITF makes full provision for all known or estimated losses on uncompleted contracts as soon as they can reasonably be estimated.

Revenue from product sales is recognized when products are delivered.

Investment income is interest income recorded on the accrual basis where there is reasonable assurance as to its measurement and collection.



#### iv) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year are expensed.

Transfers include entitlements, grants and transfers under shared cost agreements. Grants and transfers are recorded as expenses when the transfer is authorized and eligibility criteria have been met by the recipient.

#### v) Assets

##### *Financial Assets*

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations.

Financial assets of AITF are limited to financial claims, such as advances to and receivables from other organizations, employees and other individuals.

Consolidated Cash Investment Trust Fund (CCITF) is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years.

##### *Tangible Capital Assets*

Tangible capital assets of AITF are recorded at historical cost, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets. Tangible capital assets are amortized on a straight-line basis over the estimated useful life of the assets. The threshold for capitalizing new systems development is \$100,000 and the threshold for major systems enhancements is \$25,000. The threshold for all other tangible capital assets is \$5,000. All land is capitalized.

Donated tangible capital assets are recorded at their fair value at the time of contribution. Fair value is defined as the amount of consideration that would be agreed upon in an arms length transaction between knowledgeable, willing parties who are under no compulsion to act. Amortization is only charged if the asset is in use.

Tangible capital assets are written down when conditions indicate that they no longer contribute to AITF's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value.

#### vi) Liabilities

Liabilities are recorded to the extent that they represent present obligations as a result of events and transactions occurring prior to the end of the fiscal year. The settlement of liabilities will result in sacrifice of economic benefits in the future.

#### vii) Net Assets

Net assets represent the difference between the carrying value of assets held by AITF and its liabilities.

Canadian public sector accounting standards require a "net debt" presentation for the statement of financial position in the summary financial statements of governments. Net debt presentation reports the difference between financial assets and liabilities as "net debt" or "net financial assets" as an indicator of the future revenues required to pay for past transactions and events. AITF operates within the government reporting entity, and does not finance all its expenditures by independently raising revenues. Accordingly, these consolidated financial statements do not report a net debt indicator.

### viii) Valuation of Financial Assets and Liabilities

AITF's financial assets and liabilities are generally measured as follows:

<b>Financial Statement Component</b>	<b>Measurement</b>
Cash	Amortized cost
Accounts Receivable and Other Assets	Amortized cost
Accounts Payable and Accrued Liabilities	Amortized cost

AITF has no assets or liabilities in the fair value category, has not engaged in foreign currency transactions and has no remeasurement gains or losses. Consequently, no statement of remeasurement gains and losses has been presented.

For financial instruments measured using amortized cost, the effective interest rate method is used to determine interest revenue or expense. Transaction costs are a component of cost for financial instruments measured using cost or amortized cost. Transaction costs are expensed for financial instruments measured at fair value.

### ix) Financial Risk Management

AITF's financial instruments include cash, accounts receivable and other assets and accounts payable and accrued liabilities. AITF is not involved in any hedging relationships through its operations and does not hold or use any derivative financial instruments for trading purposes.

AITF's financial instruments are exposed to credit risk, market risk and liquidity risk.

#### a) *Credit Risk*

Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. AITF's accounts receivable are exposed to credit risk. Management manages this risk by continually monitoring the creditworthiness of counterparties and by dealing with counterparties that it believes are creditworthy.

#### b) *Market Risk*

Market risk is the risk of loss from unfavourable change in fair value or future cash flows of a financial instrument causing financial loss. Market risk is comprised of currency risk, interest rate risk and price risk. AITF's cash is exposed to interest rate risk. Management manages this risk by continually monitoring AITF's deposits in the Consolidated Cash Investment Trust Fund (CCITF) and their corresponding rate of return.

#### c) *Liquidity Risk*

Liquidity risk is the risk that AITF will not be able to meet its obligations as they fall due. AITF's accounts payable and accrued liabilities are exposed to liquidity risk. Management manages this risk by continually monitoring cash flows.

It is management's opinion that AITF is not exposed to significant credit risk, market risk and liquidity risk arising from its financial instruments.

### x) Employee Future Benefits

AITF participates in multi-employer defined benefit pension plans with related government entities that provide pensions for AITF's participating employees based on years of service and earnings. AITF does not have sufficient plan information on these pension plans to follow the standards for defined benefit accounting, and therefore follows the standards for defined contribution accounting. Accordingly, pension costs included in these financial statements are comprised of the cost of the employer contributions for the current service period of employees during the year and additional employer contributions for service relating to prior years.

AITF operates a defined contribution pension plan. Pension costs included in these consolidated financial statements are comprised of the cost of employer contributions for the current service of employees during the year. There are no unfunded liabilities with respect to pension and pension costs.

#### x) Measurement Uncertainty

The measurement of certain assets and liabilities is contingent upon future events; therefore, the preparation of these consolidated financial statements requires the use of estimates, which may vary from actual results. Management uses judgment to determine such estimates. In management's opinion, the resulting estimates are within reasonable limits of materiality and are in accordance with the significant accounting policies.

#### xii) Future Accounting Changes

In March 2015 the Public Sector Accounting Board issued PS 2200 – Related party disclosures and PS 3420 – Inter-entity transactions. These accounting standards are effective for fiscal years starting on or after April 1, 2017.

- PS 2200 – Related party disclosures defines a related party and identifies disclosures for related parties and related party transactions, including key management personnel and close family members.
- PS 3420 – Inter-entity transactions, establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

Management is currently assessing the impact of these new standards on the financial statements.

### NOTE 3 CHANGE IN ACCOUNTING POLICY

#### PS 3260 Liability for Contaminated Sites

In June 2010 the Public Sector Accounting Board (PSAB) issued this accounting standard effective for fiscal years starting on or after April 1, 2014. Contaminated sites are a result of contamination being introduced into air, soil, water or sediment of a chemical, organic or radioactive material or live organism that exceeds an environmental standard. AITF adopted this accounting standard retroactively as of April 1, 2014 but without restatement of prior period results. AITF is required to recognize a liability related to the remediation of such contaminated sites subject to certain recognition criteria. For the fiscal year ended March 31, 2015, AITF has not identified any liability for contaminated sites.

### NOTE 4 BUDGET

*(in thousands)*

A business plan with a budgeted deficit of \$5,868 was approved by the Board on August 13, 2014. The budget reported in the statement of operations reflects the \$5,868 deficit.

### NOTE 5 CASH

*(in thousands)*

Cash in the amount of \$55,765 (2014 - \$70,274) includes deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta amounting to \$53,223 (2014 - \$66,788). The CCITF is managed with the objective of providing competitive investment income to depositors while maintaining appropriate security and liquidity of depositors' capital.

As at March 31, 2015, securities held by AITF had a time-weighted rate of return of 1.2% per annum (2014 – 1.2% per annum). Due to the short-term nature of the CCITF investments, the carrying value approximates fair value.

## NOTE 6 ACCOUNTS RECEIVABLE AND OTHER ASSETS

(in thousands)

	2015			2014
	Gross Amount	Allowance for Doubtful Accounts	Net Realizable Value	Net Realizable Value
Accounts receivable	\$ 11,223	\$ 234	\$ 10,989	\$ 9,826
Alberta Government Departments and Agencies	3,051	-	3,051	949
Accrued income receivable	5,560	-	5,560	4,995
Prepaid	4,255	-	4,255	772
	<u>\$ 24,089</u>	<u>\$ 234</u>	<u>\$ 23,855</u>	<u>\$ 16,542</u>

Accounts receivable are unsecured, non-interest bearing and reported at their estimated net realizable value.

## NOTE 7 TANGIBLE CAPITAL ASSETS

(in thousands)

	Land	Building & Improvements <sup>(a)</sup>	Equipment <sup>(a)</sup>	Computer Hardware <sup>(a)</sup>	2015 Total	2014 Total
<b>Estimated Useful Life</b>	Indefinite	25-30 years	5-20 years	3 years		
<b>Historical Cost</b>						
Beginning of year	\$ 566	\$ 6,526	\$ 61,335	\$ 7,926	\$ 76,353	\$ 71,325
Adjustment (b)	-	-	-	-	-	984
Additions	-	2,388	2,189	270	4,847	5,557
Disposals	-	-	(354)	(10)	(364)	(1,513)
	<u>\$ 566</u>	<u>\$ 8,914</u>	<u>\$ 63,170</u>	<u>\$ 8,186</u>	<u>\$ 80,836</u>	<u>\$ 76,353</u>
<b>Accumulated Amortization</b>						
Beginning of year	\$ -	\$ 2,394	\$ 39,761	\$ 3,315	\$ 45,470	\$ 42,072
Adjustment (b)	-	-	-	-	-	984
Amortization expense	-	370	3,420	823	4,613	3,787
Effect of disposals	-	-	(296)	27	(269)	(1,373)
	<u>\$ -</u>	<u>\$ 2,764</u>	<u>\$ 42,885</u>	<u>\$ 4,165</u>	<u>\$ 49,814</u>	<u>\$ 45,470</u>
<b>Net Book Value at End of Year</b>	<u>\$ 566</u>	<u>\$ 6,150</u>	<u>\$ 20,285</u>	<u>\$ 4,021</u>	<u>\$ 31,022</u>	
<b>Net Book Value at Beginning of Year</b>	<u>\$ 566</u>	<u>\$ 4,132</u>	<u>\$ 21,574</u>	<u>\$ 4,611</u>		<u>\$ 30,883</u>

(a) The net book value of capital assets under construction that are not currently being amortized is \$2,992 (2014 - \$7,530).

(b) Adjustment relates to assets recorded as disposals in prior years.

## NOTE 8 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(in thousands)

	<b>2015</b>	<b>2014</b>
Accounts Payable and Accrued Liabilities	\$ 14,653	\$ 19,191
Alberta Government Departments and Agencies	52	391
	<b>\$ 14,705</b>	<b>\$ 19,582</b>

## NOTE 9 DEFERRED CONTRACT REVENUE/DEFERRED REVENUE

(in thousands)

	<b>2015</b>	<b>2014</b>
Deferred Contract Revenue	\$ 7,681	\$ 7,966
Deferred Revenue (a)	42,458	36,441
	<b>\$ 50,139</b>	<b>\$ 44,407</b>

(a) Deferred revenue

	<b>2015</b>	<b>2014</b>
Balance, beginning of year	\$ 36,441	\$ 25,291
Grant received – Government of Alberta	101,862	101,822
Investment income received	122	110
Recognized as revenue:		
Government of Alberta Grants	(95,845)	(90,672)
Interest Income	(122)	(110)
Balance, end of year	<b>\$ 42,458</b>	<b>\$ 36,441</b>

Deferred contract revenue represents unexpended, externally restricted funds. Deferred revenue represents unrecognized government transfers.

## NOTE 10 CONTRACTUAL OBLIGATIONS

(in thousands)

Contractual obligations are obligations of AITF to others that will become liabilities in the future when the terms of those contracts or agreements are met.

	<b>2015</b>	<b>2014</b>
Obligations under:		
Operating Leases	\$ 5,353	\$ 5,500
Grants	79,106	98,200
	<b>\$ 84,459</b>	<b>\$ 103,700</b>

Estimated payment requirements for each of the next five years are as follows:

**Obligations Under Operating Leases and Grants**

	<b>Operating Leases</b>	<b>Grants</b>	<b>Total</b>
2015-16	\$ 1,639	\$ 38,721	\$ 40,360
2016-17	1,240	22,440	23,680
2017-18	1,180	15,715	16,895
2018-19	1,095	2,230	3,325
2019-20	199	-	199
	<b>\$ 5,353</b>	<b>\$ 79,106</b>	<b>\$ 84,459</b>

**NOTE 11 BENEFIT PLANS**

*(in thousands)*

AITF participates in three multi-employer pension plans, Management Employees Pension Plan, Supplementary Retirement Plan and Public Service Pension Plan, as well as a Defined Contribution Plan. The expense for these pension plans is equivalent to the annual contributions of \$6,214 for the year ended March 31, 2015 (2014 – \$6,125).

At December 31, 2014, the Management Employees Pension Plan reported a surplus of \$75,805 (2013 - surplus \$50,457), the Public Service Pension Plan reported a deficiency of \$803,299 (2013 - deficiency \$1,254,678) and the Supplementary Retirement Plan for Public Service Managers reported a deficiency of \$17,203 (2013 - deficiency \$12,384).

**NOTE 12 COMPARATIVE FIGURES**

Certain 2014 figures have been reclassified to conform to the 2015 presentation.

**NOTE 13 APPROVAL OF FINANCIAL STATEMENTS**

These consolidated financial statements were approved by the Board of Directors on May 27, 2015.

## Schedule 1 – Expenses Detailed by Object

For the year ended March 31, 2015  
(dollars in thousands)

	2015 Budget	2015 Actual	2014 Actual
Salaries, Wages & Employee Benefits	\$ 82,429	\$ 74,901	\$ 73,248
Grants	61,742	56,344	46,528
Supplies & Services	38,164	32,253	32,116
Amortization of Tangible Capital Assets	4,422	4,613	3,787
	<b>\$ 186,757</b>	<b>\$ 168,111</b>	<b>\$ 155,679</b>

## Schedule 2 – Salary and Benefits Disclosure

For the year ended March 31, 2015  
(dollars in thousands)

	2015				2014
	Base Salary <sup>(1)</sup>	Other Cash Benefits <sup>(2)</sup>	Other Non-Cash Benefits <sup>(3)</sup>	Total	Total
Chair of the Board	\$ -	\$ 33	\$ -	\$ 33	\$ 18
Board Members	-	86	-	86	74
Chief Executive Officer	344	131	9	484	479
Vice Presidents:					
Executive Vice President	299	128	9	436	356
CFO and Vice President Finance and Administration <sup>(4)</sup>	64	383	11	458	364
Vice President, Finance <sup>(5)</sup>	165	24	43	232	-
Vice President, Pipeline	223	13	52	288	313
Vice President, Communications <sup>(6)</sup>	183	114	45	342	289
Vice President, Health	230	46	9	285	272
Vice President, Investments & Legal	239	93	12	344	345
Vice President, Science <sup>(7)</sup>	335	-	33	368	360
Vice President, Food & Agriculture <sup>(8)</sup>	240	-	6	246	85
Vice President, Oil & Gas <sup>(9)</sup>	178	22	44	244	-
Vice President, Organizational Effectiveness <sup>(10)</sup>	154	16	9	179	-

(1) Base salary includes regular salary.

(2) "Other cash benefits include honoraria for the Chair and Board Members. Other cash benefits for the Chief Executive Officer and Vice Presidents include vacation payouts, recognition pay, car and living allowance, payments in lieu of pension and lump sum payments including severance.

(3) Other non-cash benefits include employee benefits and contributions or payments made on behalf of employees including pension and supplementary retirement plan, employee health care expense accounts, dental coverage, major medical, group life insurance, short term disability plan, Workers Compensation Board premiums (estimated) and professional memberships.

(4) CFO and Vice President Finance and Administration position was vacated June 27, 2014.

(5) Vice President, Finance position was effective May 26, 2014.

(6) Vice President, Communications position was vacated February 20, 2015.

(7) Vice President, Science position is seconded from the University of Alberta.

(8) Vice President, Food & Agriculture position was effective November 1, 2013.

(9) Vice President, Oil & Gas position was effective May 26, 2014.

(10) Vice President, Organizational Effectiveness position was effective August 25, 2014.

## Schedule 3 – Related Party Transactions

For the year ended March 31, 2015  
(dollars in thousands)

Related parties are those entities consolidated or accounted for on the modified equity basis in the Government of Alberta's financial statements. Related parties also include key management personnel in AITF. AITF and its employees paid or collected certain taxes and fees set by regulation for premiums, licenses and other charges. These amounts were incurred in the normal course of business, reflect changes applicable to all users, and have been excluded from this Schedule.

AITF had the following transactions with related parties recorded in the Consolidated Statement of Operations and the Consolidated Statement of Financial Position at the amount of consideration agreed upon between the related parties:

	Entities in the Ministry		Other Entities Outside of the Ministry	
	2015	2014	2015	2014
<b>Revenues</b>				
Grants	\$ 95,845	\$ 90,672	\$ -	\$ -
Contract Revenue	1,014	1,462	2,481	2,707
	\$ 96,859	\$ 92,134	\$ 2,481	\$ 2,707
<b>Expenses – Directly Incurred</b>				
Grants	\$ 38,894	\$ 28,042	\$ -	\$ 82
Other Services	1,085	1,411	500	462
	\$ 39,979	\$ 29,453	\$ 500	\$ 544
<b>Receivable from</b>	\$ 2,468	\$ 239	\$ 583	\$ 710
<b>Payable to</b>	\$ 52	\$ 366	\$ -	\$ 25
<b>Unearned Revenue</b>	\$ 163	\$ 361	\$ 269	\$ 398
<b>Deferred Revenue</b>	\$ 42,458	\$ 36,441	\$ -	\$ -
<b>Contractual Obligations</b>	\$ 57,735	\$ 79,360	\$ -	\$ -

The above transactions do not include support service arrangement transactions disclosed below.

AITF also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements. Accommodation expenses incurred by others are disclosed in Schedule 4.

<b>Expenses – Incurred by Others</b>	Other Entities Outside of the Ministry	
	2015	2014
Accommodation <sup>(1)</sup>	\$ 19,997	\$ 19,718
	\$ 19,997	\$ 19,718

(1) AITF's share of accommodation costs is based on the proportion of space occupied compared to the total space occupied by all Ministries.



## Schedule 4 – Allocated Costs

For the year ended March 31, 2015  
(dollars in thousands)

Program	2015			2014
	Expenses – Incurred by Others			Total Expenses
	Accommodation			
	Expenses (a)	Costs (b)	Total Expenses	
Funding Programs	\$ 61,521	\$ 573	\$ 62,094	\$ 50,017
Oil & Gas	41,806	7,029	48,835	51,607
Pipeline	27,814	4,234	32,048	29,995
Environment	17,935	4,383	22,318	21,049
Food-Ag	7,828	961	8,789	5,481
Forestry	5,773	1,539	7,312	9,309
Health	5,434	1,278	6,712	7,939
	<b>\$ 168,111</b>	<b>\$ 19,997</b>	<b>\$ 188,108</b>	<b>\$ 175,397</b>

(a) Expenses – Directly Incurred as per Consolidated Statement of Operations.

(b) Accommodation costs incurred by others have been allocated based upon full-time equivalent staff.



## AITF's Mandate

Alberta Innovates - Technology Futures is an integral part of Alberta Innovates – a strategically aligned and integrated provincial research and innovation system. AITF works with key innovation support agencies, with publically funded post-secondary institutions, industry and government to further research and innovation in the Province and make Alberta competitive in the global economy.

The purpose of AITF is to make strategic and effective use of Alberta Government funding to meet the research and innovation priorities of the Government. These priorities explicitly include:

- Fostering the development and growth of new and existing industries
- Supporting a balanced long-term program of research and innovation directed to the discovery of new knowledge and the application of the knowledge to improve the quality of life of Albertans.

The Government of Alberta has given AITF the following responsibilities:

- Support, for the economic and social well-being of Albertans, research and innovation activities targeted at the development and growth of technology-based sectors and aligned to Government of Alberta priorities, including, without limitation, activities directed at the commercialization of technology and the application of knowledge
- Meet the research and innovation priorities of the Government in the following areas or in a combination of the areas:
  - Agriculture
  - Forestry
  - Energy
  - The environment
  - Health
  - Any other area determined under the regulations
- Foster the development and growth of new and existing industries through research and innovation

AITF will create value through:

- Increased effectiveness and integration of planning, funding and service delivery
- Alignment of programs and investments toward priority areas and outcomes
- Improved coordination between business, technical and networking services
- Increased program and investment focus on commercialization and product development
- Improved facilitation of knowledge, intellectual property (IP) and skill transfer within the system, and between academia, industry and government
- Improved accountability and outcomes through integrated performance monitoring and continuous improvement processes

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