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Program’s Objective

The Strategic Aerospace and Defence Initiative (SADI) was created to support Canada’s aerospace and defence (A&D) industries. Support is provided through repayable financial contributions to Canadian companies as they undertake research and development (R&D) projects in the aerospace, defence, space and security sectors. The initiative is administered by the Industrial Technologies Office (ITO), a special operating agency of Industry Canada.

SADI has the following objectives:

- Encouraging strategic R&D that will result in innovation and excellence in new products and services;
- Enhancing the competitiveness of Canadian A&D companies; and
- Fostering collaboration between research institutes, universities, colleges and the private sector.

R&D undertaken by companies supported by SADI will contribute to the eventual development of new products, processes, services or applications to be produced and marketed by the companies. In so doing, companies will strengthen their technological capabilities and provide for diffusion of knowledge and skills within the Canadian economy.
Our Funding Process

Every research and development project being considered for SADI funding is subject to an eligibility test and a thorough and multi-phased process of technology and business assessment and due diligence. The objective of the assessment and due diligence phases is to ensure that a strong business case exists for each project and that the applicants demonstrate the managerial, financial, business planning and technological expertise to successfully complete the project. Projects that meet the eligibility requirements and successfully complete the due diligence process are then subject to a multi-level approval process within Industry Canada. Should the project receive final approval by the Minister, Treasury Board and/or Cabinet, funding is provided under the terms of an agreement that defines the mutual obligations of the successful applicant and the Crown.

ITO employs rigorous due diligence and strong internal controls as a way to ensure that funds are invested wisely on behalf of Canadians.

Pre-Application

Determining Eligibility for SADI Assistance

Prior to submitting a proposal, ITO encourages potential applicants to review the eligibility and assessment criteria on the ITO website and in related documents, and to discuss their project with program officers. This allows applicants to determine if SADI meets their needs and whether or not their project meets SADI eligibility requirements. Officers are available to discuss the program and respond to questions from potential applicants through the contact information found at the end of this document and on the ITO website.

Potential applicants must be aware that their compliance with the Lobbyists Registration Act (LRA) throughout the SADI application process and the project lifecycle is essential. Applicants must be aware of the requirements of the LRA, and should review provisions of the Act with their legal counsel. Prior to communicating with government officials about an application or the project to which it relates, the applicant or any advisors engaged by the applicant should ensure that they are in compliance with the LRA.
The applicant will be required to make representations and warranties in respect of compliance with the LRA during the course of the application process and pursuant to any contribution agreement which may be proposed. In addition, lobbyists cannot be paid a commission, contingency fee or any other consideration that is dependant upon the execution of a SADI contribution agreement. These conditions are contained in the SADI contribution agreement therefore they must be respected in order for an applicant to enter into an agreement.

Eligibility Requirements

Who May Apply

To be eligible for SADI support, applicants and projects must meet all five of the following eligibility requirements:

I. SADI assistance is only available to Canadian incorporated companies that:
   - Conduct strategic R&D activities in the A&D industries; and
   - Create opportunities for Canadians to contribute to a highly skilled and knowledge-based workforce.

II. Similarly, the proposal must demonstrate that the company’s project will be comprised of eligible activities. These activities are defined as:
   - Industrial research: Planned research or critical investigation aimed at discovery of new knowledge, with the objective that such knowledge may be useful in developing new products, processes or services, or in bringing about a significant improvement to existing products, processes or services.
   - Pre-competitive development: The translation of industrial research findings into a plan, blueprint or design for new, modified or improved products, processes or services whether intended for sale or use, including the creation of a first prototype which would not be capable of commercial use. It may further include the conceptual formulation and design of products, processes or services and of initial demonstration or pilot projects, but does not include: (i) initial demonstration or pilot projects if these could be converted or used for industrial application or commercial exploitation; or (ii) routine or periodic alterations to existing products, production lines, manufacturing processes, services, and other on-going operations even though these alterations may represent improvements.
III. The project must include strategic R&D activities, involving one or more technologies that:

- Support the development of next generation A&D related products and services;
- Build on Canadian strengths in A&D technology development;
- Enable Canadian companies to participate in major platforms and supply chains; or
- Assist the sector in achieving Canada’s international obligations (e.g., development programs supported by Canada).

IV. The applicant must also demonstrate that government support is required to meet the scope and timing of the project.

V. Strategic R&D and/or manufacturing of high-value added technologies, derived from SADI funded projects, must take place in Canada, unless otherwise agreed to by the Minister.
How to Apply for SADI Support

The SADI approval process involves five distinct phases and related decision gates, and if the project is supported, a final phase of project contracting to document the mutual obligations of the successful applicant and the Crown.

1. Submission of Proposal
2. Eligibility Screening
3. Assessment Review
4. Due Diligence
5. Final decision by the Minister of Industry, Treasury Board and/or Cabinet

The initial phase (Submission of Proposal) is the responsibility of the applicant, after self-assessing for eligibility. Phases 2 through 4 are undertaken by ITO officials based on the information provided in the applicant’s proposal, and often in discussion with the applicant. The final step is taken by the Minister or Ministers responsible, reflecting their ultimate accountability for the expenditure of public funds.

1. Submission of Proposal

SADI, through ITO, accepts proposals at any time; there are no submission deadlines and proposals are considered in the order they are received. Upon receipt of a proposal, a letter is sent to the applicant, confirming receipt of such proposal. Proposals must provide detailed information describing:

- The R&D project which will be undertaken and the associated costs;
- Financial assistance required from SADI to complete the project;
- Technological innovations which will be achieved;
- Market opportunities available for the R&D;
- The social and economic benefits to Canada to be achieved through successful completion of the project;
- The company’s managerial, financial and technical capabilities; and
- Plans to repay the SADI assistance.

ITO uses this information to conduct its eligibility screening and assessment review, as well as to perform its due diligence examination. More information regarding the information required in a proposal is included in the SADI Proposal Preparation Guide.
2. **Eligibility Screening**

Upon receipt of a proposal, ITO officials will undertake an initial review to ensure that the project is consistent with SADI’s objectives as expressed by the Eligibility Requirements. If these basic requirements of SADI are not met, the proposal cannot be considered further for SADI assistance. The Eligibility Review will be based on the information provided in the proposal and applicants are advised to ensure that their proposal clearly addresses all of the eligibility requirements.

An officer will communicate the results of the eligibility review (eligible or not eligible) to the applicant. At this point a project has only been accepted for further consideration and has not been approved.

3. **Assessment Review**

If a project meets the Eligibility Requirements and the proposal is deemed to be complete, the next phase (Assessment Review) will determine if the project can reasonably be expected to be completed as described and deliver the proposed benefits. More specifically, the project will be put through a high-level evaluation to determine: whether the applicant has the capability to complete the project, whether the project will result in an innovative technology application, and if the project will deliver benefits to Canadians consistent with SADI’s objectives.

As in the Eligibility Screening stage, the Assessment Review will be based on the information contained in the proposal, and applicants must ensure that their proposal clearly addresses all of the assessment criteria, which are as follows:

**Company Capability** - ITO will assess if the proponent possesses the financial and managerial capability to complete the project and to achieve results and benefits. In this context, ITO will assess the company’s:

- Financial resources;
- Management expertise;
- Business and marketing plan to achieve the results/benefits in the proposal; and
- Technical team and its experience and expertise to conduct the proposed R&D.

Proposals must show that the company possesses all of the above capabilities.

**Technology Benefits** - To ensure that providing financial assistance for the project can reasonably be anticipated to result in an enhanced technology base in Canada, ITO will assess the following technical attributes of the project:
• The degree of strategic technology innovation and/or excellence; and
• The feasibility of the R&D leading to product/service applications.

Proposals must clearly demonstrate that the project meets **at least one** of the above criteria.

**Social and Economic Benefits** - One of the objectives of SADI is to assist the Canadian A&D industries in creating social and economic benefits for Canada. While assessing the potential benefits of the project, ITO will consider the following:

• Feasibility of achieving the stated economic benefits;
• Technology spill-over and diffusion to other companies or sectors from completion of the project; and
• Collaborative partnerships developed during the course of the project with post-secondary institutions, public research institutes or other private sector firms.

Proposals must show that the project would deliver benefits under **at least two** of the three above criteria.

In order for the project to proceed beyond the Assessment Review, it is essential that the proposal clearly demonstrates that all of the criteria under Company Capability are met; one of the two criteria under Technology Benefits is met; and two of the three criteria under Social and Economic Benefits are met. If the project meets or exceeds this requirement, the company will be informed and the project will proceed to the Due Diligence phase. If the project does not meet the Assessment Review criteria, ITO will advise the company and suggest that the proposal be withdrawn.

4. **Due Diligence Review**

As previously mentioned, the Assessment Review will be strictly based on the information provided in the proposal. The subsequent phase in the SADI decision process, the Due Diligence Review, involves a more rigorous and in-depth analysis of the project. This process will seek to validate the information presented in the proposal through a series of meetings with company managers, a review of additional supporting information and confidential discussions with external experts to ensure that SADI financial assistance will result in the anticipated benefits to Canada. Due Diligence investigation will respect company confidentiality requirements. If the findings from the Due Diligence review cannot support the conclusions of the Assessment Review, the proposal will be rejected.

Detailed information requirements for the Due Diligence review are contained in the *SADI Proposal Preparation Guide*. A summary of the main areas for in-depth investigation follows.
4A) **Company Capability**

The lines of enquiry that need to be satisfied follow the headings presented in the Assessment Review: financial resources, management expertise, business plan, and technical capability. Applicants are advised to clearly demonstrate their capabilities in each area.

**4Ai) Financial Resources**

The proposal must clearly demonstrate that the company has, or can reasonably be expected to be able to obtain, the financial resources to complete the project and achieve the stated economic benefits from the resulting technology. Due Diligence will involve detailed reviews of historical audited financial information, the underlying assumptions and reasonableness of projected financial information and the potential sources of any required internal and external financing.

Working with company management, the Due Diligence process is designed to identify the financial risks to both successful completion of the project and delivery of the intended benefits. Any identified financial risks, and company risk-mitigation strategies, will be discussed and evaluated with company management.

**4Aii) Management Expertise**

The central question in this area of the Due Diligence is whether company management possesses the capability to complete the project and deliver the intended benefits as described in the proposal. Company management will be required to demonstrate strengths in the core areas of: project management, strategic, marketing and technology management and financial planning and controls. Due Diligence investigation will assess the experience of key management and its plans to address any potential management capability gaps.

**4Aiii) Business Plan**

Company management must demonstrate through the Business Plan that it has a clear plan to allocate the resources required to complete the project, that the project is integrated with corporate strategy and that an effective marketing and distribution strategy, or technology insertion plan, is in place.

The role of Due Diligence is to assess the risks inherent in completion of the project and delivery of benefits to both the applicant and to Canada. The business plan must provide market and financial projections and a repayment plan. During Due Diligence, the applicant will be required to substantiate information contained in assumptions underlying the business plan and to provide third party validation of the marketing and sales assumptions.
4Aiv) Technical Expertise

To verify that the company has the technical expertise to complete the project, the company is asked to provide information on the company’s track record on R&D development, its current laboratory and equipment capacity, the knowledge and skills of the current technical team and the company’s plans to address any gaps in expertise required to complete the project.

4B) Technology Benefits

Consistent with SADI’s objective of supporting R&D, the Due Diligence Review will validate both the feasibility of the project as well as the degree of technological innovation. ITO investigation must verify that the project meets at least one of the following two criteria.

4Bi) Technology Innovation

This examination will focus on the extent of innovation resulting from the research and development project and/or the extent of innovation in the application of the resulting product or service. The company should clearly identify the benefits, such as: an advancement in the technological knowledge base in the field; development of, or enhancements to, new products or processes; use of existing technologies in new applications; and potential patent applications.

4Bii) Feasibility of R&D

During Due Diligence, the applicant must substantiate that the R&D is technologically feasible in relation to the current state of the development and the resources available for the work. Such evidence comes from a description of the development stage of the work, the challenges remaining, and the progress to date in relation to company targets. A R&D project is more likely to be favourably reviewed if it is based on a plan which shows a clear understanding of the activities, resources and management processes required to ensure success. That plan will outline the key success factors for its completion, as well as the technological risks and risk mitigation strategies.

4C) Social and Economic Benefits

A key objective of SADI is to assist those projects that deliver social and economic benefits to Canada. The Due Diligence process will validate the extent and quality of these anticipated benefits. Projects are required to clearly demonstrate expected benefits in at least two of the following three categories.
4Ci) Achievement of Stated Economic Benefits

Applicants must demonstrate that the eventual effort of their R&D has a good prospect of successful achievement of stated economic benefits and revenue generation. Officials will assess the applicant's understanding of the market opportunities for the product. The opportunity should be presented in the context of the projected market(s) for products of that type, including the relative maturity of the market(s), as well as the challenges posed by competition. Officials require confirmation that the company has access to the manufacturing, marketing and distribution resources to achieve the results and benefits. The company will also be asked to document its strategy to protect its new intellectual property.

4Cii) Technology Diffusion

SADI is looking to support the development of technologies and products that can be adopted and used by others. Due Diligence will determine if the applicant has identified and substantiated the opportunities and potential barriers to application of the technology in other products, services or industries.

4Ciii) Collaborative Partnerships

One of the objectives of SADI is to foster the development of collaborative partnerships between A&D companies and post-secondary institutions, research organizations or other enterprises. This can be described as the building of new relationships and encouraging more collaborative relationships between organizations. Degree of collaboration may range from informal cooperative relationships, to relationships that involve coordination between the parties, i.e., sharing of information, defined roles and some shared decision making, or to more formal relationships involving shared ideas and resources, consensual decision making and frequent communications.

Applicants must identify their collaboration plans, along with information which will allow officers to assess the extent of collaboration. This information includes details about roles and responsibilities among collaborators, management, decision-making, allocation of resources and how the collaboration will further the project goals. During Due Diligence, ITO assesses the degree of commitment to the collaboration among the various collaborators.
4D) Repayment Negotiations

All SADI financial contributions are required to be repayable under the terms of the SADI program. During Due Diligence, the applicant and ITO will negotiate a repayment plan that is consistent with the available repayment options.

Also at this stage, the draft terms of an eventual contribution agreement between ITO and the applicant will be under negotiation. These negotiations do not imply approval of the project. Project Approval remains the final phase of the application process.

Once the Due Diligence phase is complete, the applicant is informed that the project will proceed to the Approval phase.

5. Project Approval

On satisfactory completion of Due Diligence and negotiation of a mutually acceptable repayment plan, the final phase of the application process will be Project Approval. This phase of the process is the responsibility of ITO and Industry Canada officials and will be based on the project information and validation gained during the prior four phases. Consistent with the goals of the SADI program, this phase is designed to ensure that SADI funds are invested to achieve broad benefits for Canada.

Project Approval involves extensive review of the results of the Assessment and Due Diligence Reviews by senior ITO officials, as well as consideration by an intra-departmental panel of senior officials, leading to final approval at the discretion of the Deputy Minister and/or Minister. If the funding request is over $10M, approval of Treasury Board Ministers is required. For requests of over $20M, approval of Cabinet and TB Ministers is required.

Contact Information

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