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# Proposal Preparation Guide

August 2010



**SADI** / Strategic Aerospace and Defence Initiative

*Accelerating Innovation*



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Canada 

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## Contact:

Multimedia Services Section  
Communications and Marketing Branch  
Industry Canada  
Room 441E, East Tower  
235 Queen Street  
Ottawa ON K1A 0H5  
Tel.: 613-995-8552  
Fax: 613-954-6436  
Email: [multimedia.production@ic.gc.ca](mailto:multimedia.production@ic.gc.ca)

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# Contents

Introduction .....	3
Preparing a proposal .....	4
Corporate information .....	6
Contact information .....	6
Corporate profile .....	6
Research and development program .....	7
Statement of work .....	10
Major activities .....	10
Expected outcomes and benefits to Canada .....	10
Project schedule .....	12
Cost breakdown .....	12
Project locations .....	13
Equipment, materials and subcontracts .....	13
Non-eligible and non-supported activities .....	13
Company capability .....	14
Managerial capability .....	14
Technological capability and project feasibility .....	14
Financial capability .....	15
Cost tracking and accounting system .....	16
Business plan .....	17
Other required content .....	18
Repayment .....	20
Other important information .....	22



Forms .....	23
Form 1: Key project milestones .....	24
Form 2A: Breakdown of eligible costs .....	25
Form 2B: Cost breakdown by government fiscal year .....	26
Form 3: Project locations and costs .....	27
Form 4: Equipment cost breakdown .....	28
Form 5: Special purpose equipment .....	29
Form 6: Breakdown of material costs .....	30
Form 7: Breakdown of subcontract costs .....	31
Form 8: Certification and authorizations .....	32
Appendix 1: SADI project costs principles .....	33
Appendix 2: Special purpose equipment .....	38
Proposal completeness checklist .....	41

# Introduction

This guide contains information to help Canadian companies applying for financial support from the Strategic Aerospace and Defence Initiative (SADI).

SADI's information booklet ([http://ito.ic.gc.ca/eic/site/ito-oti.nsf/eng/h\\_00090.html](http://ito.ic.gc.ca/eic/site/ito-oti.nsf/eng/h_00090.html)) describes the process for seeking funding for research and development projects, including working with program officers to determine eligibility. SADI has five eligibility criteria ([http://ito.ic.gc.ca/eic/site/ito-oti.nsf/eng/h\\_00090.html](http://ito.ic.gc.ca/eic/site/ito-oti.nsf/eng/h_00090.html)) that companies and their projects must meet. **Before preparing a proposal**, officials should contact SADI (see below) to discuss their project and other factors that affect eligibility. General information on SADI is available on its website ([http://ito.ic.gc.ca/eic/site/ito-oti.nsf/eng/h\\_00022.html](http://ito.ic.gc.ca/eic/site/ito-oti.nsf/eng/h_00022.html)).

Proposals must be clear and comprehensive, and include all the information SADI officials will need to assess projects thoroughly through the rigorous and transparent due diligence process. This guide sets out the required content for proposals and includes a number of forms (see page 23) to help companies provide complete information.

Officials are encouraged to read this entire guide to ensure they can meet all the requirements **before preparing a proposal** and to follow the proposal checklist (see page 41) to ensure that their proposal is complete before submitting it.

For more information, contact SADI, as follows:

Strategic Aerospace and Defence Initiative  
Industrial Technologies Office  
235 Queen Street, 7th Floor  
Ottawa ON K1A 0H5

Toll free: 1-800-266-7531  
TTY: 1-866-468-1669  
Fax: 613-954-5694  
Email: [info@ito.ic.gc.ca](mailto:info@ito.ic.gc.ca)



# Preparing a proposal

Proposals should contain four main sections:

- Corporate information (see page 6)
- Statement of work (see page 10)
- Company capability (see page 14)
- Other required content (see page 18)

As part of their proposal, companies must provide complete and detailed information on project scheduling and costs. To facilitate assessment of proposals, companies are strongly encouraged to present their information using the forms (see page 23) provided in this guide.

There is also a checklist (see page 41) to help companies ensure their proposal is complete. SADI will not consider a proposal until the company has provided all the required information, including any additional information or clarification that may be requested.

## Assessment criteria

When preparing proposals, companies should provide comprehensive details to support the criteria that SADI officials will use to assess proposals:

- the **company's capability** to achieve the stated objectives of the project in terms of the following: financial resources, management expertise, comprehensive business plan to achieve benefits, and the technical team's experience and expertise in conducting research and development
- the **technology benefits** of the project, including one or more the following: the degree of strategic technology innovation or excellence, or the feasibility of strategic research and development leading to product or service applications
- the **social and economic benefits** of the project, including collaborative partnerships and one or more the following: commercialization potential and benefits, or technology spillover and diffusion.

For more information on the assessment process, consult the SADI information booklet ([http://ito.ic.gc.ca/eic/site/ito-oti.nsf/eng/h\\_00090.html](http://ito.ic.gc.ca/eic/site/ito-oti.nsf/eng/h_00090.html)).

## Key dates

Companies should take two key dates into consideration when preparing their proposals.

SADI will only reimburse eligible costs incurred after a certain date. SADI will inform companies of this **eligible costs date** after the proposal has passed eligibility screening and completeness assessment review, and SADI has determined the proposal to be complete and ready for the in-depth due diligence review. (For details on these steps, consult the SADI information booklet: [http://ito.ic.gc.ca/eic/site/ito-oti.nsf/eng/h\\_00090.html](http://ito.ic.gc.ca/eic/site/ito-oti.nsf/eng/h_00090.html).)

Companies whose proposals SADI agrees to fund will be allowed to incur up to 20 percent of eligible project costs between the eligible costs date and the **contribution agreement date**. This is the date on which the contribution agreement between the company and the Minister of Industry is signed.

Once the contribution agreement is signed, companies may submit claims for eligible project costs in accordance with the terms of their contribution agreement.

SADI will not reimburse companies for any eligible costs should their proposal be rejected after the due diligence review or should the contribution agreement not be signed, for whatever reason.



# Corporate information

## Contact information

Companies must provide the following information at the beginning of their proposal:

- legal name
- mailing address
- name of principal contact
- telephone number of principal contact
- fax number of principal contact
- email address of principal contact
- preferred language of communication (English or French).

## Corporate profile

Proposals should include a corporate profile, especially with respect to the company's ownership, organization and legal status. The following is required:

- the location of incorporation (province or territory, or Canada)
- confirmation that the company is a legal entity with which SADI may sign a contribution agreement
- the names of the principal shareholders (when the company is privately held) or shareholders holding more than 10 percent of voting shares (when the company is publicly held)
- the number of employees
- the name and address of any parent company
- the names and addresses of any subsidiary, affiliated or related companies, and details of the ownership of such companies
- a diagram showing the corporate structure of the company, including all parent, subsidiary, affiliated and related companies, including foreign companies, and how they interrelate (The chart should be annotated to indicate respective mandates and the ownership chain.)
- an organization chart identifying the key personnel associated directly with the proposed project



- details of key business lines (products and services) and mandates, key alliances, suppliers and customers
- a list of facilities, including locations where the project work will be conducted (see also Project locations, page 13)
- a description of the company's history in the aerospace, defence, space and security sectors.

## Research and development program

### *Overview*

Proposals should provide an overview of the company's research and development (R&D) program and set out both its short- and long-term objectives. The text should describe major successful corporate activities, particularly R&D projects, and note the total number of employees engaged in R&D.

### *Project description*

This part of the proposal should include a high-level summary of the project, describing its scope, current stage of development, objectives, expected results, degree of innovation, key technical challenges and R&D outcomes for the company. Specifically, the summary should outline the major R&D activities for which SADI investment is sought, including whether the R&D is industrial research or pre-competitive development. The SADI information booklet ([http://ito.ic.gc.ca/eic/site/ito-oti.nsf/eng/h\\_00090.html](http://ito.ic.gc.ca/eic/site/ito-oti.nsf/eng/h_00090.html)) contains more information on this.

The text should outline the significance of the proposed project to the company's R&D program, particularly to its (and by extension, the sector's) capabilities and current operations. The proposal should also present the company's process for managing risk during the R&D phase to ensure that the work is completed on time and within budget.

The following information is required in this section:

- project name
- explanation of the extent to which the R&D is likely to do one or more of the following:
  - support the development of next-generation aerospace-, defence-, space- and security-related products and services
  - build on Canadian strengths in aerospace and defence technology development
  - enable Canadian companies to participate in major platforms and supply chains
  - assist the sector in achieving Canada's international obligations (e.g. development programs supported by Canada)



- amount of assistance needed from SADI (with percentage sharing ratio; a typical sharing ratio is 30 percent)
- total project costs (including ineligible costs; see also Appendix 1, page 33)
- total estimated eligible project costs (see also Appendix 1, page 33)
- anticipated start date of the project
- completion date (i.e. the date that the R&D phase of the project, as detailed in the statement of work (see page 10), will be completed).

### *Key aspects of the technology*

This part of the proposal should describe the key aspects of the technology underlying the project, including whether the technology is a new application of an existing technology, an incremental advancement or a breakthrough. The text should also set out what strategic capabilities the project will enhance and how the technology areas being addressed fit into the company's corporate strategy.

This section should also include the following:

- a brief assessment of the company's main competitors in the technology areas
- a clear outline of the current status of the technology and the technological advancement that will result from the proposed project
- a technological risk analysis outlining all the potential barriers and hurdles that constitute risks to the success of the project, and an explanation of the company's strategy to mitigate those risks.

### *Intellectual property*

Proposals should identify all the existing intellectual property (IP) required to complete the project or properly exploit the technology to be developed as part of the project. The text should include confirmation that the company either owns or is licensed to use all such IP. (In the latter case, companies should ensure the licences are available for SADI officials to review.) Finally, the proposal should describe the company's approach to safeguarding any IP developed during the project.

Companies should be mindful when preparing their proposal that they will be required to represent and covenant as part of the contribution agreement that they will exclusively own all the IP developed or acquired during the project and that they will not transfer or grant any interest or licence to this IP, except through end-user licences in conjunction with the sale of any products that incorporate IP developed or acquired as part of the project.

### *Need for SADI investment*

Companies must demonstrate in their proposals that the SADI investment is necessary and justified in order for the project to proceed with the planned scope, timing and location. In particular, proposals should address the following:

- If the project involves extraordinarily high levels of technological, market and/or financial risk, the company should describe what would likely happen in the absence of SADI assistance.
- If the project requires SADI assistance in order to meet an internal hurdle rate test, the proposal should demonstrate and justify the company's choice of hurdle rates.
- If the project is in direct competition with other internal projects for scarce funds, the proposal should clearly indicate both the nature of this competition and the budget constraints under which the company operates.
- If other parts of the company (inside or outside of Canada) are competing to conduct this project, the proposal should set out their relative advantages and disadvantages, with quantifiable information, when possible.
- When applicable, companies should explain why they have been unable to attract adequate financing for the project (e.g. debt, equity).



# Statement of work

This part of the proposal should set out a clear and detailed statement of work for the project. It must include the information set out in this section at a minimum; however, SADI may ask for more information, depending on the type of project.

SADI will use the statement of work to assess and monitor the scope of work to be undertaken, the major activities and expected outcomes, project schedule and estimated costs (in total and by category).

Recipients of SADI funding will be required to report regularly on the actual progress of the project against the statement of work.

## Major activities

Proposals should include the following for each of the major activity areas of the project:

- title
- description
- expected outcomes: goals of or end results arising from each
- challenges involved with each
- measures to mitigate risk.

These portions of the statement of work are intended to describe options the company is investigating for the technology development and what outcomes will be achieved as a result of each activity area.

The major activities and expected outcomes should adequately reflect the entire scope of work to be undertaken, and should be framed in terms of objectively verifiable indicators. These major activities should be exactly reflected in the project schedule (see page 12) and project cost breakdown (see page 12).

## Expected outcomes and benefits to Canada

SADI aims to strengthen the Canadian economy and the competitiveness of the aerospace, defence, space and security sectors. This section of the proposal should contain information that shows how the project will meet SADI's three objectives ([http://ito.ic.gc.ca/eic/site/ito-oti.nsf/eng/h\\_00023.html](http://ito.ic.gc.ca/eic/site/ito-oti.nsf/eng/h_00023.html)). In each case, the text must include details about how the company will measure the expected results.

The proposal must clearly show how the project will help **accelerate R&D activity and innovation** by, for example, doing the following:

- increasing the level of research and development (R&D) spending
- developing new technical knowledge in specific technology areas
- enhancing existing technologies and products (e.g. increased performance, reduced cost)
- developing new products, services or processes
- building expertise within R&D teams
- creating patents, trademarks or industrial designs.

The proposal must clearly show how the project will **improve the competitive position of the company** by, for example, doing the following:

- commercializing developed products, services and processes
- stimulating market launches
- creating or improving products, market share and sales growth targets
- improving productivity and efficiency
- maintaining or increasing the number of jobs
- increasing the number of new customers
- increasing the delivery of new training and programs related to R&D
- achieving company-wide product, technology and process mandates
- creating or maintaining centres of excellence
- increasing foreign investment
- encouraging new acquisitions and investments
- creating other benefits (e.g. energy efficiency, safety, national security, production efficiencies, conservation of renewable and non-renewable resources).

The proposal must clearly show how the project will lead to the **development of collaborative relationships** and outline the results of these activities, such as the following:

- funding to be provided to universities or colleges
- R&D related directly to the project and to be performed by universities or colleges
- course curriculum in technology areas
- teaching by company experts at universities or colleges



- work assignments in the company aimed at increasing the experience and knowledge of the students
- student recruitment
- joint R&D efforts between the company and other partners
- sharing and/or using facilities or test equipment owned by either the company or the university or college
- technology transfer and licensing.

These relationships require a commitment by both partners to increase the level of collaborative effort between them by, for example, developing new collaborations or taking an existing relationship to a new level to achieve a higher degree of knowledge and/or technology transfer. The collaboration could involve developing industry standards, making presentations at industry conferences, leading or participating in industry and technology clusters, increasing the number of Canadian suppliers, or publishing technological or scientific papers.

## **Project schedule**

Proposals must include a project schedule that covers all the major activities (see page 10) that are part of the project, preferably a Gantt chart.

Milestones that are key to the project should also be listed and described (including completion dates), using Form 1: Key project milestones (see page 24). SADI officials will use this information to track the progress of the project.

## **Cost breakdown**

Proposals should include a breakdown of the costs for each major activity — both by activity and by eligible cost area — using Form 2A: Breakdown of eligible costs (see page 25).

For cash flow planning purposes, proposals should include a cost breakdown that sets out the total eligible project costs by expense category for the government fiscal year (April 1 to March 31) using Form 2B: Cost breakdown by government fiscal year (see page 26).

## **Project locations**

Proposals should list all the locations at which the work is to be performed using Form 3: Project locations and costs (see page 27). The work to be performed at each location and the percentage of total eligible costs that work represents should also be explained.

## **Equipment, materials and subcontracts**

This section of the proposal should describe any equipment, materials or subcontracts required for the project.

### *Equipment*

Companies should list on Form 4: Equipment cost breakdown (see page 28) any equipment with a unit cost of more than \$250 000 that is required for the project and any equipment that is essential (e.g. tools and dies) but the unit cost of which, while significant, is less than \$250 000.

Any special purpose equipment with a unit cost of more than \$250 000 should be listed on Form 5: Special purpose equipment (see page 29). See Appendix 2: Special purpose equipment (see page 38) for more information.

### *Materials*

If significant, material costs should be listed and described using Form 6: Breakdown of material costs (see page 30).

### *Subcontracts*

If significant, subcontract costs should be listed and described using Form 7: Breakdown of subcontract costs (see page 31).

While preparing cost information, officials should review Appendix 1: SADI project costs principles (see page 33) and Appendix 2: Special purpose equipment (see page 38).

## **Non-eligible and non-supported activities**

Proposals should describe the significant activities that are not eligible for SADI funding but that will have a direct impact on the progress of the project as a whole (e.g. building construction, trials or development work carried out outside of Canada). Refer to Appendix 1: SADI project costs principles (see page 33) for more information on non-eligible and non-supported activities.



# Company capability

Proposals must provide specific information that shows that the company is capable of completing the project with the resources on hand or that it otherwise will have available.

## Managerial capability

This section of the proposal must show that the company possesses, or can reasonably be expected to secure, the requisite managerial capability to achieve the stated objectives of the project. The following information, at a minimum, is required:

- the pertinent experience and expertise (corporate and individual, technical and managerial) of the project management team
- for collaborations, joint ventures and partnerships, the roles and responsibilities of all the parties, the allocation and contribution of resources among the parties, and the management of the relationship
- management's ability and commitment to complete the project as planned
- key managerial capability risks and the company's mitigation strategies for same.

## Technological capability and project feasibility

This section of the proposal must demonstrate, with a focus on risk, that the company possesses, or can be reasonably expected to secure, the technological capability to achieve the stated objectives of the project. In particular, the proposal should make clear that qualified personnel with relevant experience and background are assigned to the project, and that they will be conducting a systematic investigation. The following, at a minimum, is required:

- details of previous related work
- a description of the available technical resources (e.g. personnel, facilities, equipment, partners)
- information about collaborations, joint ventures or partnerships relevant to the successful completion of the project
- a description of the company's approach to managing the project and the tools required to do so (e.g. for assembling the project team, planning, budgeting, scheduling, allocating responsibility, controlling)
- an explanation of the key technological capability risks and the company's mitigation strategies for same.



The proposal must also show — again, with a focus on risk — that the project is technologically feasible, with reference to state-of-the-art technology and proposed schedules, resources and activities. The company should provide an assessment of the Technology Readiness Level of the project, if available, both at the project’s beginning and completion. The proposal text should set out the following:

- the nature of the activity (e.g. new technology development, incremental technology improvement or optimization, system integration, ongoing engineering development)
- the stage of development (e.g. concept stage, bench scale, scaled prototype, test or trials, demonstration, certification)
- achievements to date with the technology, if any
- key technological challenges remaining
- overall performance targets being sought relative to current performance
- key technological feasibility risks and the company’s mitigation strategies for same.

## **Financial capability**

### *Financial status*

This section of the proposal must include the company’s audited annual financial statements for the last three years, the latest interim financial statements, and the most recent annual report or audited financial statements of the parent company or principal owner. For companies that propose repayment plans to be based on a distinguishable business unit, the financial statements of the division or branch directing the project must also be included.

When company officials anticipate that the parent firm will be providing a financial guarantee for the project, the proposal must include that firm’s complete audited financial statements for each of the last three years, or since the date of business start-up, as well as the latest interim financial statements.

### *Financial resources*

The proposal must set out a multi-year budget that shows that the company possesses, or can reasonably be expected to secure, the financial resources to complete the project and otherwise satisfy its obligations under the contribution agreement.

The budget must list all anticipated sources of funding, the timing of that funding, and key assumptions, such as the company’s taking advantage of existing and likely corporate funding sources (e.g. available funds, cash from operations generated during the R&D program) and new sources (planned financing activities). The text must include sufficient detail on any of the key assumptions (e.g. with regard to revenue forecasts, unit cost, selling price and annual sales volume).



The proposal must clearly distinguish between existing or negotiated funding, and planned or potential funding. Government funding should be listed separately from other external funding. The financial statements may report funding as a net reduction in costs.

The proposal must list any financial assistance the company has received, or is likely to receive, from federal, provincial-territorial and municipal governments. The text must also describe any anticipated tax credits and other incentives related to the project, including setting out the basis for calculating the tax credits (what percentage of the project work is eligible for tax credits and how the tax credits are earned each year). Total government assistance to the project is limited to 75 percent of total assistance.

This section of the proposal must also include information about the following:

- special conditions attached to any of the above funding
- key financial risks and the company's proposed mitigation strategies for same
- annual research and development spending activities for the last three years
- sales figures for the last 10 years, when available (to facilitate the assessment of the royalty base; see Repayment, page 20, for more on this).

In addition, the proposal must contain forecast statements for the entire period during which the company will be completing the research and development:

- based on the company's fiscal year
- in soft and hard copy in spreadsheet format with worksheets, pages and tables containing the supporting assumptions and calculations
- in the same format, when possible, as the historical audited statements to allow for comparison
- in the same detail as the annual audited statements and including a forecast balance sheet, income statement and statement of cash flow.

For development-phase companies that are not forecasting to be profitable by the end of the research and development phase, the proposal should extend forecasts to the first year that officials anticipate the firm will achieve profitability.

## **Cost tracking and accounting system**

The proposal should explain how the company will track project costs and describe the accounting system the company uses.

The text should include sufficient detail to show that the company will be able to accurately track and record project costs. In particular, the proposal should set out how the company is going to record direct labour, specifically the time spent on each aspect of the project.

## Business plan

The proposal must include the company's business plan. This plan should describe how the company will integrate the technology and intellectual property developed during the project into operations and successfully exploit the technology. In particular, the business plan should include the following:

- the company's strategic plan showing how the project fits into it
- a market analysis that
  - defines and describes the market
  - assesses the importance of the technology to market forces (To what need does the technology respond? What is the demand?)
  - identifies key competitors and products, and their market share
  - identifies competitive and market access issues (e.g. regulatory approvals, market positioning, the cost of competing products versus the cost of project-related products, corporate mandates)
  - identifies the share of the market the company currently has and the share of the market it expects to achieve, based on the firm's sales forecasts
  - describes the projected annual sales revenue from innovative products and processes attributed to the project
  - describes the company's strategy for how it intends to penetrate the market and increase its market share
  - describes the current state of the market life cycle for the products and services associated with the project (i.e. emerging, mature, saturated, fragmented)
  - identifies potential opportunities to apply the technology to other new and innovative products and services.
- the company's production and distribution strategy, including manufacturing timing and location, if applicable (If this involves a significant scale-up of activity, the proposal should clearly demonstrate that the company possesses the requisite financial and managerial resources to implement the strategy. The proposal should note whether there are challenges related to manufacturing facilities or marketing and distribution channels.)
- details of the nature, amount and timing of any significant additional investments that will be required to integrate the project technology into operations, and the means by which they will be financed
- key commercial risks and mitigation strategies
- any third-party data (e.g. market research reports) that support company claims (as an attachment to the proposal).



# Other required content

Proposals must provide information in four other areas:

## **Previous federal government assistance**

When the company or any related companies (controlled by the firm or another entity) have received funding under any Industry Canada program (including the Defence Industry Productivity Program, Technology Partnerships Canada and SADI), the proposal must provide the following information:

- a list of this funding, including the name of the source program, the project title, the authorized (maximum) amount and the type (i.e. non-repayable, unconditionally repayable or conditionally repayable)
- confirmation that the company is current on all of the obligations (financial, reporting and other) under the contribution agreements
- certification that the company (and related companies) is in full compliance with all current obligations, financial and otherwise, to other federal departments.

SADI does not consider for approval any project proposal from a company (or related firm) that is not current on its obligations to the federal government.

## **Environmental regulations**

In the proposal, the company must confirm that it is not in breach of any environmental laws or regulations applicable to its business or operations.

## **Certification and authorizations**

The proposal must include Form 8: Certification and authorizations (see page 32), signed by the appropriate company official.

## Lobbyists and contingency fees

The company must comply with the *Lobbying Act* (<http://laws.justice.gc.ca/eng/L-12.4/index.html>). Officials must be aware of the requirements of the Act and review its provisions with their legal counsel to ensure compliance, **prior** to communicating with SADI officials about the proposal or the project to which it relates.

Firms may not pay consultant lobbyists a commission, contingency fee or any other consideration that depends on the execution of a contribution agreement with SADI. These prohibitions are set out in the Act and are part of the SADI contribution agreement. Strict adherence to these requirements is a condition of all SADI funding approvals.

The following documents must be included in the proposal as appendices:

- a list of employees and consultants who are representing or will represent the company in discussions with SADI officials about the proposal
- a printout from the Lobbyists Registration System for those employees and consultants who must be registered under the *Lobbying Act*
- an explanation of why any employees and consultants are not included on the printout of registered lobbyists, and why they do not need to be registered.

The company will have to update the list, as required, during the proposal process.

For more information on lobbying and the *Lobbying Act*, consult the Office of the Commissioner of Lobbying of Canada (<http://www.ocl-cal.gc.ca>).



# Repayment

Company officials should read and consider the following information about repayment **prior** to submitting a proposal. Companies must agree to the disclosure of repayment information.

Contribution agreements may stipulate conditional or unconditional repayment plans.

## Conditional repayment

Under a conditional repayment plan, a medium-risk, “average” project will likely have a repayment cap of 150 percent of the value of the SADI contribution, over a repayment period of 15 years.

The repayment amounts come from a royalty applied against future revenues (or the royalty base — usually the company’s gross business revenues or GBR). In exceptional circumstances, the GBR of a subunit or division may be used. Note, however, that companies that choose a royalty base other than the consolidated GBR — for example, the GBR of a division — will have to provide sufficient rationale for that choice, as well as 10 years of annual operating results, so that SADI can establish the volatility and risk of the proposed royalty base.

The royalty repayment period begins during the first company fiscal year after the completion date of the research and development phase of the project. The royalty rate, to be applied against future GBR, is not established until after the completion date. At that time, when the firm’s annual audited statements are available (or the audited revenue statement in the case of a division), the amount of the SADI contribution will be divided by the actual GBR multiplied by the number of years in the royalty repayment period. This will establish the royalty rate that will be in effect during the repayment period. For each subsequent repayment year, the conditional repayment amount due will be influenced by the growth of the royalty base as well as royalty adjustment factors that increase or decrease the amount owed, depending on the year-over-year growth in the royalty base. In years in which the royalty base experiences negative year-over-year growth, no repayment for that year will be due. For years in which growth falls within or exceeds pre-established amounts, the royalty due will increase by a royalty adjustment factor (for example, 1.25 times when growth is between 3 and 6 percent; 1.33 times when growth is between 6 and 9 percent; and 1.5 times when growth is more than 9 percent).

The annual royalty is due 120 days after the company's fiscal year-end. This allows sufficient time for the company to provide its annual audited statements for payment verification.

Example: SADI contribution of \$10 million; SADI repayment cap of \$15 million; 11 percent annual growth in GBR;

- Royalty repayment period: 15 years
- Royalty base (base-year GBR): \$45 million
- Royalty rate (SADI contribution ÷ (royalty repayment period x base-year GBR)): \$10 million ÷ (15 x \$45 million) = 1.48 percent
- Royalty base (GBR repayment year 1): \$50 million (which equals 11 percent sales growth)
- SADI royalty (royalty rate x royalty base x royalty adjustment factor: 1.48 percent x \$50 million x 1.5 = \$1.11 million)

The annual royalty is payable until the company achieves the repayment objective or the end of the 15-year royalty repayment period, whichever is earlier.

## Unconditional repayment

Unconditional repayment amounts payable per year are determined at the time of SADI's risk assessment of the company.



# Other important information

Company officials should read and consider all the following information **prior** to submitting a proposal.

## Security of company information

SADI will not disclose to any party outside of the federal government (other than external parties retained to review technical aspects of a proposal) any commercially confidential information a company submits, except in the following circumstances:

- The company authorizes the release.
- Industry Canada is required by law to release the information.
- The information ceases to be confidential.
- The Minister of Industry is required to release the information to an international or internal trade panel due to a dispute in which Canada is a party or a third-party intervener.

The company must mark any commercially confidential information in its proposal as such. Officials may also wish to become familiar with the terms of the *Access to Information Act* (<http://laws.justice.gc.ca/eng/A-1/index.html>), which governs the release of information held by federal organizations.

## International agreements

SADI is administered according to Canada's international agreements. SADI contributions are not contingent, in law or in fact, on actual or anticipated export performance.

## Company commitments

Depending on the proposal, SADI may modify its standard contribution agreement to include additional terms and conditions.



# Forms

To facilitate assessment of proposals, companies are strongly encouraged to present their information using the following forms. For forms that have no limit on the amount of information to provide, officials should feel free to add rows so they can include all the required details.



# Form 1: Key project milestones

Use this form to set out the milestones that are key to the project's success. If possible, limit the number of milestones to 5 to 7, but no more than 10. Use a Gantt chart to set out the planned progress towards these milestones.

Company name: \_\_\_\_\_

	<b>Project milestone</b> (Description)	<b>Date</b> (Target completion date)
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		

# Form 2A: Breakdown of eligible costs

Company name: \_\_\_\_\_

Description of activity area (use same title as in the statement of work)	Estimated eligible costs (\$000)						Total
	Direct labour	Equipment (see forms 4 and 5 for detail)	Direct materials (see Form 6 for detail)	Subcontracts and consultants (see Form 7 for detail)	Other direct costs	Overhead	
1.							
2.							
3.							
4.							
5.							
6.							
<b>Total eligible costs</b>							

All costs are to be in accordance with Appendix 1: SADI Project Costs Principles. For claim purposes, companies are to choose one of the following two methodologies for the submission of eligible costs: the Canada Revenue Agency's *Scientific Research and Experimental Development (SR&ED) Expenditures Claim* (Guide to Form T661) costing methodology; or the Public Works and Government Services Canada (PWGSC) methodology whereby direct costs are calculated in accordance with the SADI Costs Principles, and indirect costing rates are determined using the applicable PWGSC costing rates negotiated with the company in accordance with PWGSC 1031-2 Contract Cost Principles. For any period for which the PWGSC rate negotiations have not been completed at the time of claim preparation, the previous year's negotiated PWGSC costing rates will be used in the interim. In the event that no previous PWGSC rate exists for the project, an interim overhead rate of 65 percent of direct labour will apply.



# Form 2B: Cost breakdown by government fiscal year

Company name: \_\_\_\_\_

Fiscal year (ending March 31)	Estimated eligible costs (\$000)							Total
	Direct labour	Equipment	Direct materials	Subcontracts and consultants	Other direct costs	Overhead	Total	
20__								
20__								
20__								
20__								
<b>Total</b>								

# Form 3: Project locations and costs

Company name: \_\_\_\_\_

Project location	Work performed	Estimated percentage of total eligible costs
1.		
2.		
<b>Total eligible costs</b>		



# Form 4: Equipment cost breakdown

Company name: \_\_\_\_\_

Description	Estimated costs (\$000)
Equipment valued at more than \$250 000 per unit*	
1.	
2.	
3.	
Equipment valued at less than \$250 000 per unit	
1.	
2.	
<b>Total eligible costs</b>	

\* Note any special purpose equipment on Form 5: Special purpose equipment.

# Form 5: Special purpose equipment

Company name: \_\_\_\_\_

This list is to include all items of special purpose equipment required to carry out the project.

1.	Description, serial number and model number	Quantity	Cost to the company (\$000)
2.			
3.			
4.			
5.			



# Form 6: Breakdown of material costs

Company name: \_\_\_\_\_

This list is to include all materials essential to the project's success or whose aggregate cost is significant.

Description	Estimated costs (\$000)
1.	
2.	
3.	
4.	
5.	
<b>Total eligible costs</b>	



# Form 7: Breakdown of subcontract costs

Company name: \_\_\_\_\_

This list is to include all subcontracts essential to the project's success or whose aggregate cost is significant.

Description	Names of anticipated contractor(s)	Estimated costs (\$000)
1.		
2.		
3.		
4.		
5.		
6.		
<b>Total eligible costs</b>		



# Form 8: Certification and authorizations

I certify that:

- the information provided in this proposal and attachments is accurate and complete
- [name of company] is in full compliance with all of the company's current obligations, financial and otherwise, to the federal government, including other contribution agreements; execution of the proposed project will not prevent [name of company] from continuing to meet these obligations and from maintaining the economic benefits anticipated by the other agreements; and these obligations will in no way preclude [name of company] from fulfilling its obligations under the proposed project
- the work to be performed on [name of project] will be performed in accordance with the requirements of all regulatory bodies that have jurisdiction over [name of company] on this project
- [name of company] is currently in compliance with all municipal, provincial and federal environmental requirements.

I authorize the Industrial Technologies Office (ITO) to gather from, and share with, other government sources of assistance the necessary information to ensure there will be no duplication of assistance and confirm that all agreements are being adhered to.

I understand that no commercially confidential information provided in this proposal and attachments will be disclosed unless otherwise specified by [name of company]; required to be released by law; the information ceases to be confidential; or required by the Minister of Industry to be released to an international or internal trade panel for the purposes of the conduct of a dispute in which Canada is a party or a third-party intervener.

I understand that SADI is a discretionary program subject to available funding, and that submission of a complete proposal, meeting any or all of the assessment criteria, or responding to requests from SADI officers for further information in respect of a proposal, does not mean that funding will be granted. All companies whose projects are approved for SADI funding will be so notified in writing.

I acknowledge that any approved projects will be the subject of public announcements.

I have authority to bind the company,

---

Signature of authorized signing officer

---

Name and title

---

Date

# Appendix 1: SADI project costs principles

## 1. General principle

Eligible costs are the direct and indirect costs that, in the opinion of the Minister, are reasonably and properly incurred or allocated, to the performance of the project, less any applicable credits. These costs will be determined in accordance with the company's cost accounting system, as accepted by the Minister, and applied consistently over time. The cost accounting system should clearly establish an audit trail that supports all cost claims, in particular, the direct labour costs, as described below, clearly indicating the allocation of each employee's hours on the project.

## 2. Reasonable costs

A cost is reasonable if, in nature and amount, it does not exceed that which would be incurred by an ordinary prudent person in the conduct of a competitive business.

When determining the reasonableness of a particular cost, consideration must be given to the following:

- whether the cost is of a type generally recognized as normal and necessary for the conduct of the company's business or performance of the project
- the restraints and requirements by such factors as generally accepted sound business practices; arm's-length bargaining; federal, provincial and local laws and regulations; and the terms of the contribution agreement
- the action that prudent business persons would take in the circumstances, considering their responsibilities to the owners of the business, their employees and customers, the Government of Canada, and the public at large
- significant deviations from the established practices of the company that may unjustifiably increase the eligible costs
- the specifications, delivery schedule and quality requirements of the particular project as they affect costs.



### *Affiliated persons*

In the case of eligible costs incurred with an affiliated person, the amount of the costs incurred will be adjusted as follows:

- The cost of those goods or services must not exceed their fair market value.
- When there is no fair market value for the applicable goods or services, the fair market value of similar goods will be used.
- When there is no similar good, the cost-plus method (see below) will be used to determine the cost.

The cost-plus method determines the total costs plus profit, as follows:

- Using the cost-plus method, total costs are the sum of the applicable direct and indirect costs, as described in sections 4 and 5, below, that were reasonably incurred or allocated in the performance of the statement of work, as determined and measured consistently in accordance with Generally Accepted Accounting Principles.
- Profit is calculated as follows, provided that the profit does not exceed 5 percent of the total costs: profit = total cost x (1.7 x 3-year Canadian Saving Bond rate, as of the date of the execution of the contribution agreement).

### **3. Methodologies to determine the direct and overhead costs**

For claim purposes, companies are to choose one of the following two methodologies for the submission of eligible costs:

- the Canada Revenue Agency's *Scientific Research and Experimental Development (SR&ED) Expenditures Claim* (Guide to Form T661) costing methodology; or
- the Public Works and Government Services Canada (PWGSC) methodology whereby direct costs are calculated in accordance with the SADI Costs Principles, and indirect costing rates are determined using the applicable PWGSC costing rates negotiated with the company in accordance with PWGSC 1031-2 Contract Cost Principles. For any period for which the PWGSC rate negotiations have not been completed at the time of claim preparation, the previous year's negotiated PWGSC costing rates will be used in the interim. In the event that no previous PWGSC rate exists for the project, an interim overhead rate of 65 percent of direct labour will apply.

## 4. Direct costs

(applicable only if PWGSC rates are to be used)

There are three categories of direct costs:

- **Direct material costs:** the cost of materials that can be specifically identified and measured as having been used or to be used for the performance of the project and that are so identified and measured consistently by the company's cost accounting system as accepted by the Minister. These materials may include, in addition to materials purchased solely for the project and processed by the company, or obtained from subcontractors, any other materials issued from the company's general stocks. Materials purchased solely for the project or subcontracts shall be charged to the project at the net laid-down cost to the company, net of any taxes and before any discounts for prompt payment. Materials issued from the company's general stocks shall be charged to the project in accordance with the method as used consistently by the company in pricing material inventories.
- **Direct labour costs:** that portion of gross wages or salaries incurred for activities that can be specifically identified and measured as having been performed or to be performed on the project and that is so identified and measured consistently by the company's cost accounting system, as accepted by the Minister.
- **Other direct costs:** those applicable costs, not falling within the categories of direct material or direct labour, but that can be specifically identified and measured as having been incurred or to be incurred in performance of project activities and that are so identified and measured consistently by the company's costing system, as accepted by the Minister.

Direct costs do not include any allocation for profit or any allocation of general and administrative expenses.

## 5. Indirect costs

(applicable only if PWGSC rates are to be used)

Indirect costs (overhead) are those costs that, though necessarily having been incurred during the period of the performance of the project activities for the conduct of the company's business in general, cannot be identified and measured as directly applicable to the project.



These indirect costs may include, but are not necessarily restricted to, such items as the following:

- indirect materials and supplies (Supplies of similar low-value, high-usage items, the costs of which meet the above definition of direct material costs but for which it is economically expensive to account in the manner prescribed for direct costs, may be deemed to be indirect costs for the purposes of the project.)
- indirect labour
- fringe benefits (the company's contribution only)
- service expenses: expenses of a general nature, such as power, heat, light, operation and maintenance of general assets and facilities
- fixed and period charges: recurring charges such as property taxes, rentals and reasonable provision for depreciation
- general and administrative expenses: including remuneration of executive and corporate officers, office wages and salaries, and expenses such as stationery, office supplies, postage, and other necessary administration and management expenses
- selling and marketing expenses associated with the products or services being acquired under the contribution agreement.

## **6. Allocation of indirect costs**

(applicable only when PWGSC rates are to be used; see Form 2A: Breakdown of eligible costs, page 25)

Indirect costs must be accumulated in appropriate indirect cost pools, reflecting the company's organizational or operational lines, and these pools subsequently allocated to the project or contracts, in accordance with the following principle:

- The costs included in a particular indirect cost pool should have a similarity of relationship with the project or contracts, as applicable, to which that indirect cost pool is subsequently distributed; further, the costs included in an indirect cost pool should be similar enough in their relationship to each other that the allocation of the total costs in the pool provides a result that would be similar to that achieved if each cost within that pool were separately distributed.

## **7. Non-eligible costs**

Notwithstanding that the following costs may have been or may be reasonably and properly incurred by the company during the performance of project activities, they are considered non-eligible costs:

- allowance for interest on invested capital, bonds, debentures, bank or other loans together with related bond discounts and finance charges
- legal, accounting and consulting fees in connection with financial reorganization, security issues, capital stock issues, obtaining of licences and prosecution of claims against the Minister
- losses on investments, bad debts and expenses for the collection thereof
- losses on other projects or contracts
- federal and provincial income taxes, goods and services taxes, excess profit taxes or surtaxes and/or special expenses in connection therewith
- provisions for contingencies
- premiums for life insurance on the lives of officers and/or directors when proceeds accrue to the company
- amortization of unrealized appreciation of assets
- depreciation of assets paid for by the Minister
- fines and penalties
- expenses and depreciation of excess facilities
- unreasonable compensation for officers and employees
- product development or improvement expenses not associated with the product being acquired under the project
- advertising, except reasonable advertising of an industrial or institutional character placed in trade, technical or professional journals for the dissemination of information for the industry or institution
- entertainment expenses
- donations
- dues and other memberships other than for regular trade and professional associations
- fees, extraordinary or abnormal for professional advice in regard to technical, administrative or accounting matters, unless approval from the Minister is obtained
- any cost relating to land or buildings.

Notwithstanding the above, legal, accounting and consulting fees in connection with the obtaining of patents and statutory protection of other elements of the intellectual property are eligible costs.



# Appendix 2: Special purpose equipment

## 1. Definition

*Special purpose equipment* is defined as follows:

- equipment, including ancillary systems, instrumentation, or special test equipment that is purchased, leased, manufactured or otherwise acquired for the purposes of the project, the item cost of which exceeds \$250 000 excluding jigs, tools, dies and fixtures
- prototypes that are designed and built by the company to demonstrate the technology to be commercialized.

## 2. Disposal and treatment of special purpose equipment

### *Disposal*

Except in the situation described under “Exception to repayment,” below, if the company disposes of any special purpose equipment, the Minister will require the company to repay the greater of an amount equal to that determined by

- multiplying the proceeds of disposition of the special purpose equipment by the ratio of the total amount of the contribution paid by the Minister to the total amount paid by the company for supported eligible costs
- multiplying the fair market value of the special purpose equipment on the date of the transfer to commercial production, transfer outside of Canada, sale, lease or other disposition, by the ratio of the total amount of the contribution paid by the Minister to the total amount paid by the company for eligible costs. When repayment is calculated in this way, the onus is on the company to demonstrate the fair market value to the Minister’s satisfaction. SADI may engage an independent third party to verify the amount.

The company must make such repayment within 30 days of the transfer to commercial production, transfer outside of Canada, sale, lease or other disposition of the special purpose equipment.

### *Reduction in maximum amount repayable*

The maximum amount to be repaid will be reduced by the amounts repaid under the terms of “Disposal,” above.



### *Exception to repayment*

If the estimated cost as set out in the statement of work of all of the items of special purpose equipment, other than prototypes, is 30 percent or less of the total estimated eligible costs, the company will not be obligated to pay the Minister for those items the company transfers to commercial production in Canada. This exception does not result in a reduction in the maximum amount repayable.

## **3. Retention of special purpose equipment**

When the company retains special purpose equipment for ongoing research and development in Canada (i.e. it is not disposed of, not put into commercial production, not transferred out of Canada), then it is left as part of the conditional repayment stream.

## **4. Costing principles**

To be an eligible cost, the special purpose equipment must be necessary for the performance of the project, be described in sufficient detail in the statement of work so as to be readily identifiable, and listed on Form 5: Special purpose equipment (see page 29).

If the special purpose equipment is to be modified or integrated by the company during the project, the costs related thereto will be eligible only when specifically identified in the statement of work.

Eligible costs for special purpose equipment will be the net laid-down cost to the company, after deducting trade discounts and cash discounts for prompt payment.

When applicable, periodic payments under a capital lease are eligible costs, to a maximum equal to the price of the special purpose equipment, if it were purchased at the commencement of the lease period, all interest and carrying charges excluded. For operating leases, the eligible costs are the actual lease payments incurred during the performance of the project.

Labour and material costs required to modify or adapt the special purpose equipment for the purposes of the project are eligible costs.

Unless such is otherwise allowed in the statement of work, costs of construction or alteration of plant facilities to accommodate the special purpose equipment or any other item of machinery and equipment, and any profit, fees, general and administrative overhead expenses related thereto, are not eligible.



## **5. Reporting**

The company will report to the Minister, using Form 5: Special purpose equipment (see page 29), on all activities associated with special purpose equipment.

The company also agrees to monitor the location and use of all the items of equipment on that list.

# Proposal completeness checklist

Prior to submitting their proposals, company officials should ensure that they have addressed all the items listed below.

	<b>Text or attachment included</b>
<b>Corporate information</b>	
• Contact information	
• Corporate profile	
• Research and development program	
Overview	
Project description	
Key aspects of the technology	
Intellectual property	
Need for SADI investment	
<b>Statement of work</b>	
• Major activities	
• Expected outcomes and benefits to Canada	
• Project schedule	
• Cost breakdown	
• Project locations	
• Equipment, materials and subcontracts	
• Non-eligible and non-supported activities	
<b>Company capability</b>	
• Managerial capability	
• Technological capability and project feasibility	
• Financial capability	
Financial status (including requested financial statements and reports)	
Financial resources	
• Cost tracking and accounting system	
• Business plan	



	<b>Text or attachment included</b>
<b>Other required information</b>	
Previous federal government assistance	
Environmental regulations	
Certification and authorizations	
Lobbyists and contingency fees (including a list of people who will be dealing with SADI and a printout from the Lobbyists Registration System)	
<b>Repayment</b>	
<b>Forms</b>	
• Form 1: Key project milestones (including Gantt chart)	
• Form 2A: Breakdown of eligible costs	
• Form 2B: Cost breakdown by government fiscal year	
• Form 3: Project locations and costs	
• Form 4: Equipment cost breakdown	
• Form 5: Special purpose equipment	
• Form 6: Breakdown of material costs	
• Form 7: Breakdown of subcontract costs	
• Form 8: Certification and authorizations	