Irving Shipbuilding Inc.
Industrial and Regional Benefits
for AOPS Build Contract

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Industrial and Regional Benefits (IRBs)

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Additional information on Canada’s IRB Policy can be found at: www.ic.gc.ca/irb
Our Commitment to Canada

• For major defence and security procurements (over $100 million), the Federal Government’s IRB Policy requires companies undertake business activities in Canada valued at 100 percent of the value of the contract awarded. Simply put, for every dollar of contract value, a dollar needs to be spent in Canada.

• ISI is seeking to partner with suppliers who are committed to the AOPS project and who will deliver the best value to Canada, including IRBs.
IRB Transactions

• There are two types of IRB Transactions:

  1. **Direct IRB Transactions**: Activities (parts, labour and services) directly related to the building of the AOPS vessels

  2. **Indirect IRB Transactions**: Activities unrelated to the building of the AOPS vessels

• **Total IRB % =**

  \[
  \text{(Direct IRB Transactions + Indirect IRB Transactions)} \div \text{Contract Value}
  \]

• All IRB transactions must meet specific **eligibility criteria**.
• **Causality:** The activity is being done in Canada in support of ISI’s IRB obligation. Does not have to be sole reason for business decision but a consideration – important to keep records of causality

• **Incrementality:** Must be new work, research, etc... to Canada

• **Timing:** Must be completed within the IRB achievement period
  - IRB Achievement Period for AOPS: Starts September 1, 2010 and ends ONE year AFTER the last AOPS is delivered
Calculating Canadian Content Value (CCV)
All proposed IRB transactions must be valued in terms of Canadian Content Value (CCV). CCV is measured in Canadian dollars and is the portion of the selling price of a product or service associated with the work actually performed in Canada.

Only the Canadian labour and materials of a particular work package is counted toward a contractor's IRB commitment; all foreign overhead, labour and materials for any particular transaction is excluded from the CCV calculation.
Calculating CCV

• Typically, CCV for Direct IRB Transactions is calculated using the Net Selling Price Method.

Net Selling Price Method:  
Total Selling Price  
Less: Duties + Excise Taxes + GST + HST  
Less: Ineligible Items (See next slide)  
= Direct CCV

• On Indirect IRB Transactions, CCV is calculated on a case by case basis depending on the type of transaction.

• An IRB Transaction where a Small and Medium Business ("SMB") is one of the IRB Recipients and where the SMB’s content has a CCV of at least 70%, the first $1 million of the contract can be counted at 100%. The remaining amount is counted at the actual CCV.

We ask for all suppliers to be as accurate as possible in calculating CCV, while not being too conservative.
CCV – What DOES NOT Count

- **Costs or Business Activities that are ineligible for IRB credit:**
  - Imported Items to Canada
  - Living & Relocation costs paid to Non-Canadians (Except Designated Non-Canadians)
  - All Canadian Taxes & Duties
  - IRBs claimed under another IRB Obligation Agreement
  - Proposal & Bid Preparation Costs
  - Transportation outside of Canada
  - Obligations of the Federal Government (e.g. government furnished equipment)
  - License Fees and ongoing royalty payments
  - Influence costs over any country's purchasing agent/department
  - Interest costs associated with financial instruments to support IRB Transactions
  - Fees paid to lobbyists
  - Fees paid to 3rd party consultant / agents related to obtaining IRB Credit
Indirect IRBs
Eligible Party Criteria

• In order to provide Indirect IRBs, a Contractor has to be approved by Industry Canada as an **Eligible Party**

• Each Indirect IRB transaction must have a CCV equal to or greater than 30%.

• Industry Canada will consider the following criteria in determining whether to approve a company as an **Eligible Party**:
  – Indirect Transaction Value Potential
  – Contractor’s ability to undertake IRB commitments including company size, product offerings, market conditions, corporate ownership, IRB management processes, level of Canadian Content, etc.
The following are the various types of Indirect IRB Transactions:

- Global Value Chain (GVC) Platforms
- Post-Secondary & Public Research Institution Transactions
- Consortium Transactions
- Investment Framework Transactions
- Technology & Skills Cooperation Transactions
- General Investment Transactions
- Venture Capital Fund Transactions
- World Product Mandate
- Import Replacement
Global Value Chain (GVC):

Designed to incent Contractors to add Canadian suppliers to their global value chains. Work happening in Canada related to other major GVC platforms may be counted against a Direct IRB commitment.

Eligible GVC platforms must meet the following criteria:

- is similar to the platform being proposed for a particular project
- has market potential (measured by market size and longevity) equal to or greater than the platform proposed for the particular project
- offers significant opportunities for technological advancement, growth in the level of system integration, small and medium-sized business participation etc.

Example: ISI awards a contract to Acme Company for $2M. Acme agrees to a 100% direct IRB commitment. Industry Canada approves Acme Company as an Eligible Party. To meet its $2M direct IRB commitment, Acme completes direct work with a CCV of $1M on the current contract (e.g. AOPS) and subcontracts $1M to a Canadian supplier for work on a GVC platform (e.g. military aircraft production in the United States). This $1M GVC transaction can be counted against Acme Company’s direct IRB commitment.
Post-Secondary & Public Research Intuition Transactions:
Cash contribution to Canadian universities for university research or the establishment of university chairs; investments in advanced technology skill development through publicly operated post secondary Institutions; and, collaborative research undertaken with public research institutions. May carry a 5x multiplier.

Example: ISI awards a $5M contract to Acme Company who agrees to 100% CCV. 10% ($500K) of the product Acme supplies is not manufactured in Canada. Industry Canada approves Acme Company as an Eligible Party. Acme Company provides $20K/year to a local Canadian University to fund research over the next five years. Acme is credited with $500K of CCV by Industry Canada (i.e. $20K X 5 years x 5 times multiplier).
Consortium Transactions:
Investment in R&D through a Consortium
- A Consortium consists of: a) Contractor, b) a minimum of one Canadian Company, and;
  c) one Canadian Post-Secondary or Public Research Institution
  - Involvement of non-Canadian companies is permitted (total investment from non-Canadian
    companies shall not exceed 50% of the Consortium value)
- Can be cash or in-kind contributions (cash contributions may carry a 5X multiplier)
- Additional funds invested by other parties into the Consortium may be counted if others
  parties entry was the result of the Contractor
- Future sales can be counted under a separate IRB Transaction

Example: ISI awards a $500K contract to Acme Company, a German based company with no
Canadian operations, that has agreed to provide a 100% IRB commitment. Industry Canada
approves Acme Company as an Eligible Party. Acme Company, ABC Company based in Toronto
uninvolved with AOPS, and XYZ University in Halifax form a Consortium to conduct R&D work on a
radar system. Acme Company contributed $50K cash and also convinced the ABC Company to
participate in the Consortium and provide a $50K cash contribution. Acme would be credited with
$500K of CCV (i.e. ($50K + $50K) x 5).
**Investment Framework (IF) Transactions:**

May involve R&D and/or Commercialization activities made directly by the Contractor with a Canadian Small and Medium Business (SMB).

- Must have a duration of at least 5 years. Specific gating process required by Industry Canada
- Multipliers: Cash for R&D or License for Intellectual Property x 9; Cash to purchase or in-kind transfer of Equipment x 7; In-kind transfer of Knowledge and/or marketing/sales support x 4

**Example:** ISI awards a contract to Acme Company for $2M. Acme agrees to 50% direct IRB and 50% indirect IRB. Industry Canada approves Acme Company as an Eligible Party. To meet its $1M indirect IRB commitment, Acme provides a $143K cash contribution to a Canadian SMB in order for the Canadian SMB to purchase equipment to commercialize a product line. Acme would be credited with $1M of indirect CCV due to the multiplier for this type of IF transaction (i.e. $143K x 7 multiplier).
Technology & Skills Cooperation Transactions:
• Following Criteria shall be met
  – Technology sufficiently complete to allow the Canadian recipient to apply the knowledge
  – Technology shall be proprietary, current and same or higher level than on AOPS
  – All required license or permits to facilitate future sales must be included
  – All engineering & technical advice and assistance required to keep the technology current shall be available
  – The recipient shall have access to domestic and foreign markets & resources to exploit it
  – Technology shall be exploitable in terms of capability (financial & technical)
  – Contractor shall make available to the IRB authority or ISI the licensing agreement
• CCV will be measured in terms of future sales, export sales or import replacements
• Reasonable costs incurred can also be counted once the achievement in future sales surpasses the cost of the Technology & Skills Cooperation

Example: ISI awards a contract to Acme Company for $2M. Acme agrees to 50% direct IRB and 50% indirect IRB. Industry Canada approves Acme Company as an Eligible Party. To meet its $1M indirect IRB commitment, Acme partners with a Canadian company in the design, development and manufacturing of a new or improved HVAC system. Acme incurs $400K in costs. As a result of the Technology & Skills Cooperation, the Canadian company receives future sales of $600K. Since the future sales exceeds the incurred costs, Acme may now be credited indirect CCV of $1M ($400K reasonable costs incurred + $600K in future sales).
General Investment Transactions:

Involve activities such as investment in Canada

- Made by the Contractor and placed directly with a Canadian Recipient for minimum 3 years
- CCV = Investment + Future Sales x (Investment in Recipient / Recipients Capitalization)
- In cases where the Canadian Recipient is the Contractor’s own Canadian facilities, the investment and the incremental sales from that investment may be eligible
- What is Not Eligible:
  - Investments made during the normal course of business
  - Purchase of a Canadian Company that is a “Going Concern”

Example: ISI awards a contract to Acme Company for $2M. Acme agrees to 50% direct IRB and 50% indirect IRB. Industry Canada approves Acme Company as an Eligible Party. To meet its $1M indirect IRB, Acme makes a $200K investment in a Canadian business (recipient) to establish a Canadian facility that will develop Canada’s advanced technology industry and provide a capability that does not already exist in Canada. Assuming future sales as a result of this investment totaled $1.6M and the recipients capitalization is $400K, the resulting CCV would be $1M (Investment: $200K + (Future sales: $1.6M x (Investment in Recipient: $200K / Recipients Capitalization: $400K)).
Venture Capital Fund (VCF) Transactions:
Investment can be made to an IRB recipient utilizing a third party to manage the investment

- May be directed at assisting the growth of private Canadian Small Business (X<50 employees for Service; X<100 Manufacturing-Based Company) through their development and exploitation of new technologies
- May carry a 5x multiplier (must be approved in advance by Industry Canada)
- Investment must remain with Small Business for at least three years and be under $10M
- Generally involved in the development, manufacture or commercialization of a technologically advanced product or service in: Life Sciences, Health, Advanced Materials, Environment, IT, Aerospace & Defense

**Example:** ISI awards a contract to Acme Company for $2M. Acme agrees to 50% direct IRB and 50% indirect IRB. Industry Canada approves Acme Company as an Eligible Party. To meet its $1M indirect IRB, Acme invests $200K in a Venture Capital Fund that invests the $200K in a Small Business within a technologically advanced industry for a minimum of 3 years. Industry Canada approves a 5x multiplier on the transaction, resulting in a CCV of $1M ($200K x 5).
World Product Mandate:
A long-term supplier relationship between the Contractor or an Eligible Party and a Canadian Company, whereby the Canadian company has been legally authorized to carry out and has sole responsibility for specific activities including the design, development, intellectual property, manufacture and marketing related to the supply of products, components, modules or services destined for the domestic and world markets. If the CCV of the product is verified to be 70% or greater, the full contract value will be deemed to be CCV.

Example: ISI awards a contract to Acme Company for $2M. Acme agrees to 50% direct IRB and 50% indirect IRB. Industry Canada approves Acme Company as an Eligible Party. To meet its $1M indirect IRB, Acme enters into a long-term supplier relationship with a Canadian Company valued at $1M to supply its widget to domestic and world markets. The CCV of the widget is 70%, however, the full $1M will be deemed CCV as a result of this “World Product Mandate”.
Import Replacements:
Due to the transference of work into Canada

Example: ISI awards a contract to Acme Company for $2M. Acme agrees to 50% direct IRB and 50% indirect IRB. Industry Canada approves Acme Company as an Eligible Party. To meet its $1M indirect IRB commitment, Acme stops the sourcing of $1M worth of raw material from Europe and purchases the raw material instead in Canada.
Thank You!

For More Information, Please Contact:

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