

Editor's Welcome

The Balancing Act

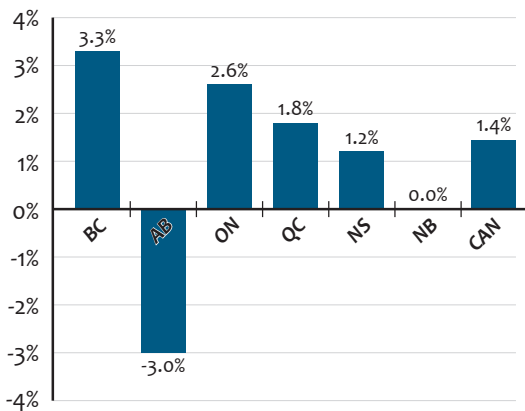
Written by: Ela Malkovsky, Editor-in-Chief at NorthBridge Consultants

The ability to achieve and maintain balance is one of the greatest challenges in business, politics, and life as it impacts business survival, economic stability, and quality of life.

The fate of a company is determined by its ability to balance out its assets against its liabilities and shareholder equity, while also balancing day-to-day business operations with product development and growth. The government strives for a balanced budget, while also balancing voter approval rates. Meanwhile, individuals employed by companies and the government struggle every day just to maintain a work-life balance while growing the balance in their bank account. Maintaining this delicate balancing act, while also achieving progress requires great creativity with the resources that are available.



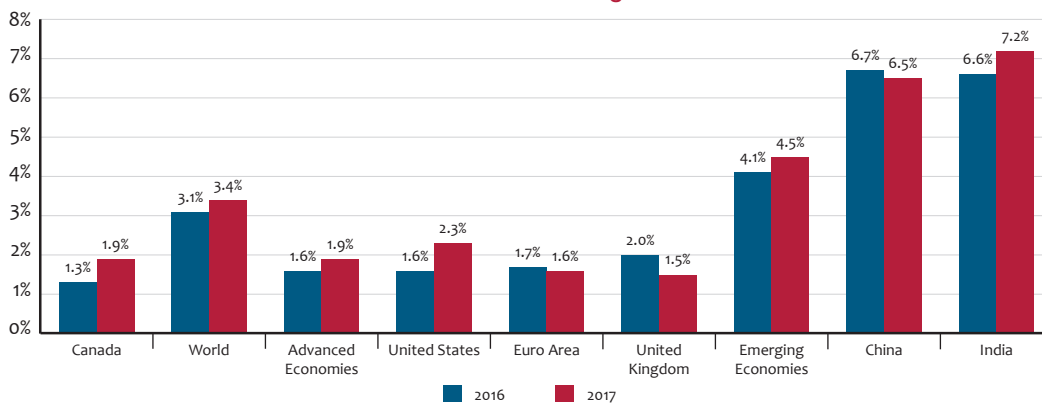
Real GDP (% Change 2016)



Source: RBC Provincial Forecasts, March 2017

In order to achieve economic balance while spurring progress, the Canadian Federal and Provincial governments propose to maximize their resources through various investments in business growth and innovation. These investments are beginning to pay off as the Canadian economy is showing resilience with 2.6% annualized growth rate in the second half of 2016 following two years of slow economic growth, and with outpacing U.S. economic growth by 0.7% in the final quarter of 2016. Canadian economic resilience in 2016 was driven by rebounding oil production following the Fort McMurray wildfires, while non-oil related sectors have maintained strong growth averaging over 3% annually since the end of 2014. British Columbia saw the greatest growth in real GDP among all the provinces in 2016 and is expected to rank among the top provinces over the next two years, while Ontario boasts the highest venture capital activity in 2016 with 200 deals totaling \$1.5B in investment, and Quebec led private equity investments with 344 deals amounting to \$3.8B. The gradual rise of oil prices and continued growth in non-oil related sectors is expected to encourage increased Canadian economic activity in 2017 and 2018.

Real GDP % Change



Source: New Brunswick Economic Outlook 2017-2018

In the following articles, we compare the most recent provincial investments in business and innovation as well as projected economic performance as proposed in the 2017 federal and provincial budgets. By leveraging various federal and provincial investments, Canadian companies can maximize their existing resources in order to grow and innovate.

Investment in Business Growth

Canadian Venture Capital investment soared in 2016 by 41% with a 44% increase in average deal size, while private equity investment dropped by 40% compared to 2015.

Early Stage Start-Ups

The Quebec Economic Plan allocated \$0.7B to promote entrepreneurship and to fund growing businesses. This includes, but is not limited to, \$8M for immediate actions to support entrepreneurship, an additional \$1.2M for the Startup Quebec program, \$70M for a new action plan on entrepreneurship, increased support of the new entrepreneurship plan and social economy hubs, as well as a \$50M investment for a new cooperative buyout program which will allow workers to obtain financing at advantageous conditions for the complete or partial purchase of a business.

The budget for the BC Small Business Venture Capital Tax Credit, which encourages investors to make equity capital investments in BC, increased from \$35M to \$38.5M in January 2017, providing an additional \$11.7M annually in equity financing for qualifying corporations.

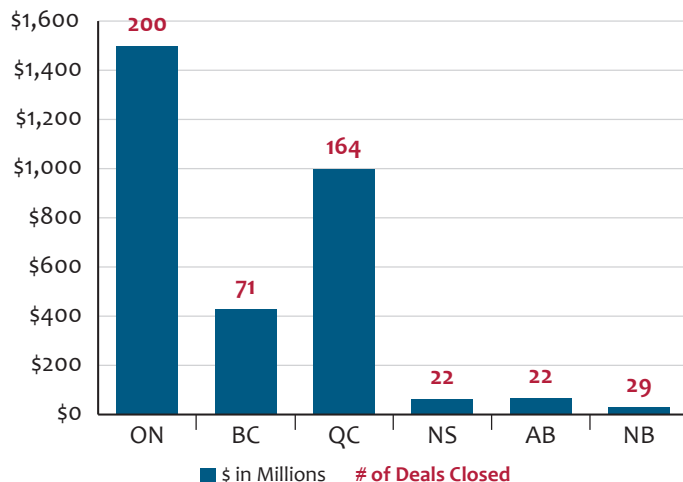
New Brunswick is launching the Agile Business Services Initiative to evaluate existing services and to allow entrepreneurs and employers to provide feedback on the government services they access.

The Alberta budget allocated \$10M for the Alberta Entrepreneurship Incubator Program and \$75M over 2 years for Alberta Enterprise Corporation (AEC) investments. In addition, Alberta Treasury Branches (ATB) partnered with the Business Development Bank of Canada (BDC) to create a \$1B loan program to support Alberta small business and ATB Financial borrowing limits were increased by \$1.5B.

Ontario will be expanding the Business Growth Initiative to over \$650M over five years to support the transition to the knowledge based economy. The Business Growth Initiative will support the growth of small- and medium-sized enterprises (SMEs), accelerate Ontario's transition to an innovation-driven economy, and remove regulatory barriers to growth by modernizing practices.

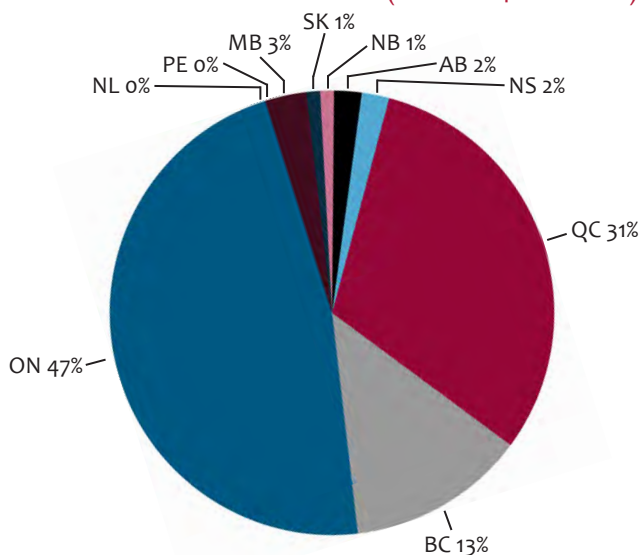
Nova Scotia invested \$25M in a new venture capital fund in 2016 in order to further improve access to capital by pairing public money with private money. Nova Scotia's 2017 investments include \$3.6M of federal funding to support the Centre for Ocean Ventures and Entrepreneurship (COVE) and \$500,000 in additional funding to double the Small Business Development program.

Canadian VC Deals by Province in 2016



Source: VC & PE Canadian Market Overview 2016, by CVCA

Total Canadian VC Deals in 2016 (based on \$M invested)



Source: VC & PE Canadian Market Overview 2016, by CVCA

Business Tax Rates

Small businesses in Alberta, BC and New Brunswick will see a slight reduction in their provincial taxes. Both Alberta and BC small business tax rates were reduced from 3% and 2.5%, respectively, to 2%, effective January 2017, in order to help small businesses deal with higher costs resulting from the carbon levy. The New Brunswick government announced a slight reduction of the small business tax rate from 3.5% to 3% starting in April 2017, and reaffirmed its commitment to bring the rate down further to 2.5%

In January 2017, Nova Scotia's small business deduction limit was increased from \$350,000 to \$500,000 to match the federal level. The lower 3% rate of Nova Scotia income tax will apply to those that qualify for this new limit.

Ontario's Manufacturing and Processing (M&P) tax rate was reduced in stages from 12% in 2009 to the current 10%.

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The following is a table which summarizes current tax rates for each province:

	General Corporate Business Tax Rate	Manufacturing and Processing Tax Rate	Small Business Tax Rate	Small Business Deduction Limit	SR&ED Tax Credit Rate
Federal	15%	15%	10.5%	\$500,000	35% enhanced rate; 15% basic rate
British Columbia	11%	11%	2%	\$500,000	10% non-refundable; refundable for CCPCs up to 10% of the expenditure limit
Alberta	12%	12%	2%	\$500,000	10% refundable (on eligible expenditures up to \$4M)
Ontario	11.5%	10%	4.5%	\$500,000	8% OITC; 20% OBRITC; 3.5% ORDC
Quebec*	11.8%	11.8%	8%	\$500,000	14% to 30% depending on total assets and taxable income (exclusion thresholds apply)
Nova Scotia	16%	16%	3%	\$500,000	15% refundable
New Brunswick	14%	14%	3%	\$500,000	15% refundable

*Quebec Bill 112, tabled in 2016, gradually reduces the general corporate income tax rate for active business, investment, and Manufacturing and Processing (M&P) income from 11.9% to 11.5% beginning in 2017. The rate will decrease to 11.8% in 2017, 11.7% in 2018, 11.6% in 2019 and 11.5% in 2020. The rate reductions will be effective January 1st of each year from 2017 to 2020. Furthermore, the Quebec Economic Plan proposes a reduction of the tax rate of small- and medium-sized businesses (SMBs) in the primary and manufacturing sectors from 8% to 4% and the introduction of an additional deduction for transportation costs for manufacturing SMBs by 2021-2022.

Investment in Innovation

The information presented below details new programs, changes, and increased investments in innovation as presented in recent provincial budgets, as well as other relevant data and announcements.

Innovation Tax Credits and Tax Deductions

- **QC:** In January 2017, the tax rate on income derived from a patent, which would have been 11.8%, was reduced to 4.0%. This allows manufacturing companies that are marketing patented products developed in Quebec to benefit from a reduced tax rate on income derived from this patent. The Quebec Economic Plan allocated \$14.5B for encouraging business investment, including an additional 35% deduction in the capital cost allowance to encourage business transition to digital technology and an extension to the tax holiday for foreign researchers and experts involved in large investment projects.
- **NB:** The Small Business Investor Tax Credit was increased from 30% to 50%.
- **BC:** SR&ED tax credit was extended to August 31, 2022.
- **AB:** The investor tax credit (AITC) and Capital investment tax credit (CITC) were reconfirmed.

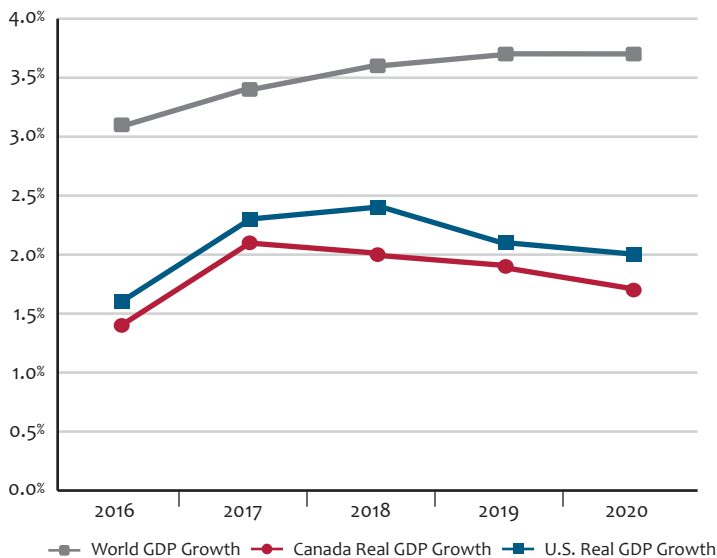
Innovation Infrastructure

- **QC:** \$2.2B to stimulate research and innovation. The Minister of Economy, Science and Innovation will shortly announce a new Quebec research and innovation strategy based on consultations with stakeholders in several Quebec regions.
- **NB:** The government announced a \$50,000 local food and beverage strategy to boost the bio economy across New Brunswick.
- **BC:** \$87M in additional funds for technology sector support, with details to be revealed at next month's BC Tech summit.
- **AB:** Funding was doubled for technology development programs through Alberta Innovates for the voucher program and SME support.
- **ON:** \$50M over five years to establish the Advanced Manufacturing Consortium which will include three Ontario universities McMaster, Waterloo and Western. \$20M over three years through the Colleges Applied Research and Development Fund to connect colleges with Ontario companies. \$50M over five years to the Perimeter Institute.
- **NS:** \$4M to support innovation initiatives, including a new rebate program. Construction of new Trades Innovation Centre at Nova Scotia Community College, Pictou Campus.



Economic Forecasts

Predicted GDP Growth (%)



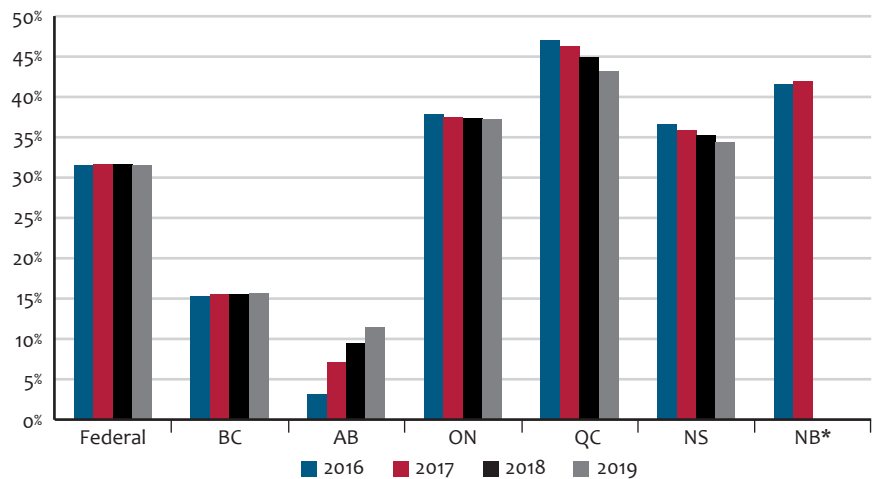
Source: 2017 Ontario Budget

Following 3.1% GDP growth in 2016, the global economy is expected to accelerate by 3.3% in 2017 and 3.4% in 2018. The dramatic declines in oil prices have largely passed and oil prices have recovered somewhat following the agreement between OPEC and a number of non-OPEC members to reduce output, thus reducing uncertainty around global oil prices. Oil prices rose at the end of 2016, averaging USD \$54 per barrel at the beginning of 2017 and West Texas Intermediate (WTI) oil prices should average USD \$54 and USD \$59 per barrel in 2017 and 2018, respectively.

Canadian manufacturing exporters will continue to benefit from a low Canadian dollar, which is expected to remain below 80 cents (relative to the U.S. dollar) over the next three years. Canadian output has shifted from resource sectors into manufacturing and services. Resource producing regions such as Alberta have suffered, while manufacturing provinces such as Ontario and Quebec have largely benefited.

In line with this, Ontario exports are expected to grow by an average of 2.3% and balanced budgets are projected from the 2017 to 2020 period with net debt-to-GDP ratios expected to continue to decline from 37.8% in 2016 to 37.2% by 2019. Similarly, Quebec's projected Real GDP growth of 1.7% in 2017 and 1.6% in 2018 will be driven primarily by higher household consumption and export growth of 2.2% in both 2017 and 2018. BC is anticipating Real GDP growth of 2.3% in 2017 and is expected to continue growing faster than the national average over the next couple of years with 2.2% growth in 2018 and an average annual growth rate of 2.1% from 2019-2021. New Brunswick projects Real GDP growth of 0.6% in 2017 while Nova Scotia's economy projects growth rates of 1.1% in 2017 and 0.8% in 2018.

Projected Federal and Provincial Net Debt to GDP Ratio (%)



*NB 2018 and 2019 values not available

Source: RBC Provincial Outlook, March 2017

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