



Industry Generated  
Recommendations for  
Sustainability and Growth of  
Ontario's Bioscience Industry  
in 2010 and Beyond

November 2009

# OBIO Biotechnology Industry Consultation Report

## November 2009

### 1.0 Executive Summary

The Ontario government has recognized the importance of the emerging knowledge economy to the province's future prosperity. The biotechnology industry is an important part of a knowledge economy. The confluence of external and internal factors has converged to create an unprecedented crisis in this sector. The combination of the recession, the high cost of research and development, decreased liquidity and absence of equity investment threatens the survival of many of our nascent companies. Many of our companies' very survival are being challenged, specifically due to their inability to raise capital and maintain the necessary working capital to continue operations<sup>1</sup>. A number of them have ceased operations due to the crisis.

Ontario's biotechnology SMEs, of which 68% are privately owned, develop innovative drug therapeutics, diagnostics and medical devices. The Ontario government has shown commitment to the biotechnology sector, as part of their support for emerging technology industries. However, regulatory requirements and the lead-time between discovery and commercial revenue create unique challenges for SMEs in the bioscience sector, which are not always recognized. Both private and public biotechnology SMEs have come together to form the Ontario Bioscience Industry Organization (OBIO) with the mandate to provide input to the provincial government around actions designed to ensure the long-term commercial success of our industry, and the associated growth in R&D sector jobs and financial health.

This report provides five specific recommendations (see below) to government. The five recommendations focus on changes to existing provincial programs, all of which we believe could be modified within the next fiscal year, and target short-term relief for the Ontario industry. They are based on direct feedback from CEOs of Ontario biotechnology firms in a province-wide consultative process. The process was completed in two stages. Initially, 6 province-wide working groups enumerated CEOs' concerns and suggestions. The second stage consisted of an online consultation and voting process involving CEOs in the industry. Finally, the report identifies several longer-term opportunities for strengthening the partnership between the Ontario biotechnology industry and government.

#### Specific Industry Generated Recommendations

1. Increase the 10% refundable Ontario Innovation Tax Credit (OITC) to be more in line with Quebec.
2. Establish a mechanism to monetize Tax Credits quickly, providing short-term cash flow
3. Modify the eligibility requirements of the OETF to allow for smaller funding rounds.
4. Establish a fund similar to OETF for small public companies unable to raise capital.
5. Change the eligibility requirements for BIP to:
  - a. Remove needs for current market activity
  - b. Expand the types of companies who can apply
  - c. Reduce the level of expenditure required

<sup>1</sup> <http://www.biotech.ca/uploads/pwc%20survey/lifescienceforecastfinal.pdf>

## 2.0 Introduction

Ontario's biotechnology companies play a key role in the development and commercialization of new drugs, diagnostic tools and other products that both increase the well-being of Ontario's population and create wealth. The importance of this sector has been well recognized by Provincial and Federal governments, as well as globally in both developed and emerging economies. Biotech companies in Ontario have had a number of successes, but find themselves constrained by limited access to capital, and the increasing cost of product development and testing prior to commercial launch. The lack of available capital has been identified by BiotecCanada as the greatest challenge the industry faces in Ontario and nation-wide.

The Ontario government has taken a pro-active role in responding to the challenges facing the biotechnology industry and other high-technology industries in the Province. However, there is an acknowledgment in both the public and private sectors, that the current programs and initiatives could be improved. To date specifying and implementing improvements to these programs has been hampered by the need for a collective voice specific to the Ontario-headquartered bioscience industry.

*The federal and provincial government in Canada has always been very supportive of early stage research. There is a national need for government to support projects with a clear commercial path. A focus on commercialization is critical to spurring the growth of new companies that can contribute to Canada's biotechnology industry"*

Thomas Wellner, President & CEO Therapure Biopharma

In 2009, Ontario's industry leaders created the Ontario Bioscience Industry Organization (OBIO) to provide a representative voice and 'one stop shop' for the industry in its interaction with government. The organization represents more than 70 small to mid-size biotechnology companies headquartered in Ontario who employ skilled research and business people in the development and commercialization of new drug therapies, diagnostics and medical devices. While the majority of these companies are still privately held (68%), many are venture-backed and have strategic partnerships with larger multinational pharmaceutical and medical device corporations.

This is the first report from the OBIO and highlights recommendations that focus on three key current government programs, namely, the BIP, OITC, and the recently launched OETF program. Recommendations are based on feedback from our members and reflect changes that CEO's believe will have a positive impact on biotech companies, their industry and the Province. In addition we identify priorities for future interactions with government that will help ensure the long-term health and competitiveness of Ontario's biotechnology industry.

### 3.0 Background

According to BiotecCanada, in July, 2009, 70 per cent of Canadian biotech firms polled claimed they did not have enough cash to last one year- up from 50 per cent of firms in a similar poll in January. Canada could lose up to 7,000 high-skilled research and development jobs within one year if short-term financing cannot be obtained. Based on this national report, OBIO mobilized the CEO's of Ontario's bioscience companies to provide detailed provincial insights to the government.

OBIO's mandate is to provide direct feedback to the Ontario provincial government on the precise nature of the challenges facing the industry as a whole (rather than specific companies). Our objective is to establish and develop a long-term dialogue to enhance communication and the identification of pertinent issues. We have identified existing programs that could be modified quickly and we provide recommendations to government for both short-term and long-term policy initiatives related to the industry.

*“Access to capital has always presented a challenge as the biotech industry competes for capital with other sectors. However, the situation has been exacerbated by the current economic crisis to the point where there will likely be a significant impact in Canada’s ability to emerge as a strong player, post-recession, in this globally competitive industry”*

Gord Jans, National Leader, Life Sciences Group at PricewaterhouseCoopers

**Table 1: Biotech CEO Working Group Leaders**

<b>Michael Cloutier</b>	CEO, Critical Outcome Technologies
<b>Simon Goulet</b>	COO, PharmaGap and Stephen Fanjoy, President Therapeutic Monitoring
<b>Dr. Paul Dick</b>	CEO, Chemaphor Inc.
<b>Dr. Joe Elliot</b>	CEO, Receptor Therapeutics
<b>Dr. Brent Norton</b>	CEO, PreMD
<b>Peter Pekos</b>	CEO, Dalton Pharma Services

### 3.1 Establishing a Consultative Process

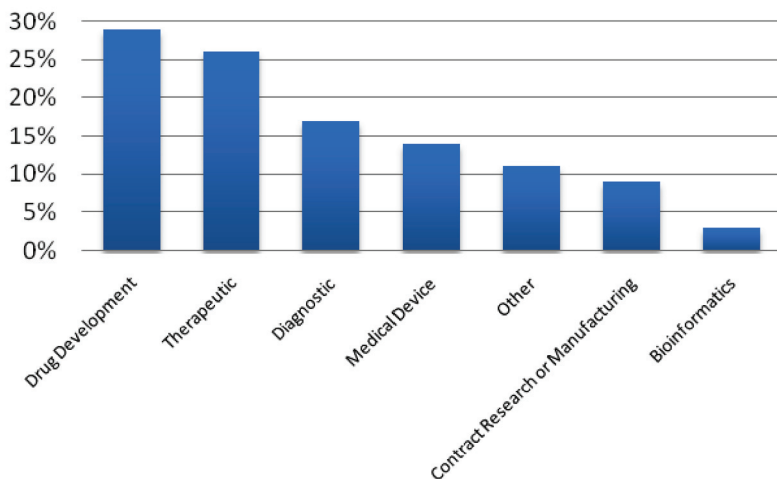
OBIO formed a start-up team of concerned industry executives, to establish a process aimed at gathering the required data and recommendations that would subsequently become the content of this report. The history of the biotech sector in Ontario has been one of initiation of many potential representative organizations some of which survive the start-up process but most withering away from lack of participation. To date, there has not been an organization that represents the companies and the viewpoints of the CEO's of Ontario's indigenous biotech sector. OBIO's objective was to begin a unique process that was inclusive, transparent, democratic with the goal facilitating a continuous dialog between the sectors CEO's and the government. The process started with an open invitation meeting to CEO's of Ontario's biotech companies in July 2009, attended by 45 executives, followed by 6 regional working groups led by the CEO of a local bioscience company (Table 1). Each group had the mandate to develop ideas to stabilize and grow the bioscience industry in Ontario and to identify important government programs, which could be modified to affect the sustainability of Ontario based biotech companies. These working groups were attended by bioscience CEOs from across Ontario, and each group was responsible for producing a set of draft recommendations.

Equicom Inc, a Toronto based investor relations firm, worked with OBIO to summarize input from these groups and identify the priority programs, specific recommendations for improvement and possible future areas to review. A face to face meeting was held to present the summary to Working Group Leaders and key industry stakeholders who confirmed the findings. OBIO then commissioned an online consultation and voting process with all Ontario Bioscience CEOs, to provide their input. Input was collected from the perspective of individual companies, as well as that pertaining to the broader industry perspective that acknowledges the importance of all companies in building the critical eco-system necessary for long term industry growth.

### 3.2 On-Line Consultation

Sixty percent of the bioscience CEOs approached responded to the OBIO request for input. Their responses provided insights into both the key fiscal challenges facing their companies in the next 12 months and the relative importance of each of the three provincial programs: Biopharmaceutical Investment Program (BIP), the Ontario Innovation Tax Credit (OITC), and the Ontario Emerging Technology Fund (OETF) to the sustainability of their companies. An example of the full on-line consultation is provided in Appendix D.

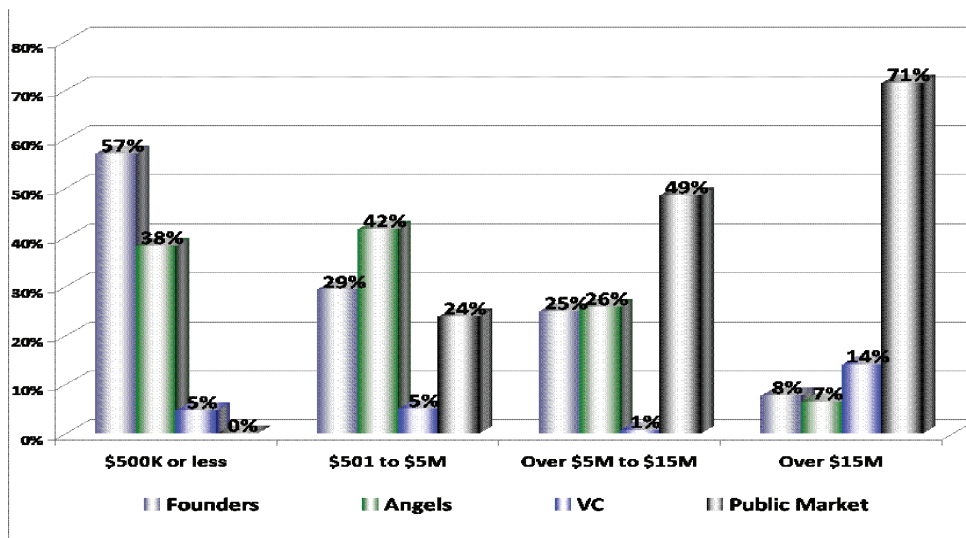
**Figure 1: Distribution of Participating Companies**



Key metrics gathered from the consultation reveal an industry largely focused on early R&D (39%) with over half (55%) of companies identifying themselves either as drug development or therapeutic company (Figure 1). Not surprisingly, 56% of companies employed less than 10 people with only ten percent employing between 50 and 100 employees.

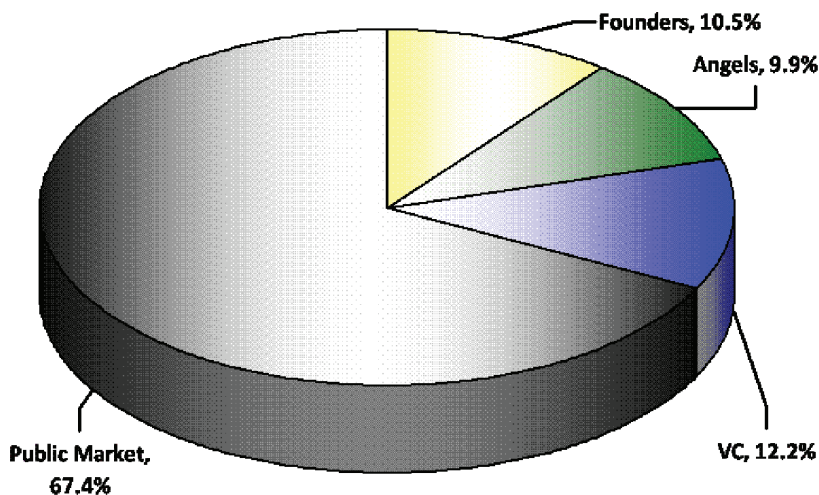
In total, responding companies employed about 700 people directly and had raised in excess of \$600 million of equity. Companies had received equity funding from a number of sources, as shown in Figure 2. This highlights the importance of company founders and angel investments for companies whose total funding is \$5 million or less and the public markets for companies with total funding greater than \$5 million. Figure 3, shows the aggregate composition of equity investment from identified sources. Only 32% of companies were publicly traded and only 14% identified themselves as being at a Revenue Stage while 54% generate revenues either from sales to third parties or licensing. (Appendix A).

**Figure 2**



The % of funding from each source for companies whose total funding falls within the bounds shown on the horizontal axis i.e. the sum of the 4 bars companies with funding of “\$500K or less” add to 100%

**Figure 3**



Less than half of the companies (45%) reported receiving financial support from the province of, on average, \$212,000 over the past 12 months (Appendix A). Slightly fewer companies (38%) received federal financial support (an average of \$584,000 in the past 12 months). On balance 50% reported receiving support from at least one level of government averaging \$636,000 annually.

The top 7 fiscal issues facing Ontario’s biotechnology companies are shown in Table 3. We found that the two most important challenges facing our companies today were the raising of external finance and maintaining working capital. Our findings confirm the conclusions of the BiotecCanada/PWC1 survey of the national biotechnology industry, which also concluded that companies need to address both mechanisms and sources of long-term equity and short-term working capital.

**Table 3: Top Fiscal Issues facing Biotech companies**

1. Raising external finance	51%
2. Maintaining working capital	15%
3. Funding clinical trials	13%
4. Survival	13%
5. Maintaining workforce	3%
6. Funding patent development	3%
7. Funding research	3%

## 4. Proposed Modifications to the Current Provincial Programs

### 4.1 Overview

**Table 4: Rank of Program Importance**

<b>For the Company</b>	<b>For the Industry</b>
1. OITC (51%)	1. OITC (72%)
2. OETF (32%)	2. OETF (14%)
3. BIP (17%)	3. BIP (14%)

The OITC program was ranked highest in importance to a majority of CEOs (51%), followed by the OETF (32%) and BIP (17%) programs. The CEOs were also asked about the importance of these programs to the industry as a whole and more ranked the OITC program as the highest priority (72%) – reinforcing the importance of the OITC program.

CEOs were also asked about the importance and benefits of specific modifications to each program. Preferred modifications to the three programs are presented below. Each change in the program should have a direct economic benefit to the companies and the Province as shown in Table 5, with the specific benefit to the companies shown in the Impact on Business sections of this Table.

<sup>2</sup> <http://www.biotech.ca/uploads/pwc%20survey/lifescienceforecastfinal.pdf>

## 4.2 OETF

The OETF fund was an important program to the CEOs, and was precisely aimed at the problem of attracting investment. The matching requirement of the program, (government investment with that of a qualified investor), was well supported, although concerns were raised that the total amount of money available annually should be increased.

Many small publicly traded companies were facing the challenge of raising equity but were ineligible for this program. It was strongly recommended that a similar fund aimed at these companies addressing the same financing issues should be created. The newness of the program made the CEOs reluctant to make further recommendations.

## 4.3 BIP

Eighty-two percent (82%) of the CEO's companies were **ineligible** for the BIP program. It was recommended that changes be made to the eligibility requirements of the program allowing companies not currently marketing human therapeutics to apply to the program. Other recommendations included lowering the requirement for a \$5 million contribution and expanding eligibility to medical device and diagnostic companies.

## 4.4 OITC

The OITC was the highest ranked program in importance and received two key recommendations from the CEOs:

- (1) Increase the percentage rate of this program, from 10% to 37.5%; (same percentage used to calculate the comparable Quebec tax credit)
- (2) Find a way to accelerate cash flows arising from these credits.<sup>3</sup>

Changes implemented in this program could significantly increase cash reserves for biotech companies that urgently require funds to continue operations. It should be noted that due to the number of firms voting for the OITC to be modified, changes to this program were perceived to have the most impact. Appendix B and C provide more detailed analysis of why specific recommendations were suggested.

A complete summary of how the proposed changes would benefit responding companies is shown in below.

<sup>3</sup> It is important to note that a straight comparison between rates in Quebec and Ontario cannot be made, due to differences in the definition of eligible costs and eligible maximums.

A complete summary of how the proposed changes would benefit responding companies is shown in below.

**Table 5: Proposed changes and impact for each program \***

See definitions below

Proposed Program Changes	Impact on Business		
<b>OETF</b>			
Lower \$1 M minimum investment threshold	Gain eligibility	R & D Spend	Increase Investment
Create OETF fund for public companies	Gain eligibility	Extend Runway	Increase Investment
Make Small Public companies eligible	Gain eligibility	R & D Spend	Add Jobs
<b>BIP</b>			
Eliminate marketed human therapeutic requirement	Gain eligibility	Add Jobs	R&D Spend
Lower the \$5 million minimum contribution	Gain eligibility	R & D Spend	Increase Investment
Expand eligibility to Medical Device/Diagnostic	Gain eligibility	R & D Spend	Increase Investment
<b>OITC</b>			
Increase OITC from 10% to 37.5%	R & D Spend	Add Jobs	Extend runway
Increase frequency of OITC payment to quarterly	Extend runway	R & D Spend	Add Jobs
Expand eligible expenditure criteria	Extend runway	R & D Spend	Increase Investment

\* **Gain Eligibility:** Allow your company to qualify for the program

**Extend Runway:** Increase the amount of time your company can continue core operations to achieve milestones and maintain the current number of employee

**Add Jobs:** Create additional positions within your company

**Increase Investment:** Ability to attract capital investments to achieve company milestones

**Sales:** Increase in top line sales that will achieve company milestones;

**Ontario Base:** Continue operations in Ontario rather than locate to another jurisdiction

**R&D Spend:** Increase your R&D expenditure to achieve company milestones

## 5.0 Creating New Funding Programs

The CEO feedback provided recommendations for new provincial programs, notably the creation of a program similar to the US Small Business Innovation Research (SBIR) program. The SBIR program seemed particularly attractive to the CEOs as a program model to fund application focused innovative research and increase private sector commercialization.

In addition, the Province of Quebec was highlighted as a biotechnology friendly province, with better tax credits (we provide a brief summary in Appendix C) and a recently announced strategic plan 2 that included many more financial incentives to biotech companies. Quebec programs seemed to provide long-term comfort about industrial policy for life science companies, especially important in industry that requires longer time-frames to produce significant economic impact

Other programs around tax holidays for companies and employees in the high technology sector were recommended, as was help to validate market opportunities, obtain patents and make companies more attractive to investors.

## 6.0 Forward Looking Issues

### 6.1 Strategic Overview

Several key recommendations emerged from the consultative process, articulating the need for an Ontario bioscience vision focused on enabling the application and commercialization of life science technology and a desire on the part of the industry's CEOs to work toward the creation of a vibrant bioscience industry in Ontario. The strategic recommendations made by the CEOs are highlighted in Table 6. Each recommendation presents an opportunity for a more detailed review, and will build from the start made in this report.

#### **Table 6: Recommendations Regarding Forward Looking Issues**

- Organize an effective OBIO to improve the situation in Ontario for Biotechnology companies to contribute and grow
- Develop an overall strategic vision for life-sciences in the province, that includes all stakeholders, including biotechnology companies, universities and colleges, healthcare providers, pharmaceutical companies operating in Ontario, and especially the financial community (investors)
- Help Ontario look as if it is serious about a commercial R & D industry, rather than just acting as a major academic research center

## 6.2 Leveraging Healthcare Activity in the Province

The ability to foster interactions between our research community and our health care providers was highlighted in statements from our CEOs (below). This represents a unique and competitive advantage for the Province of Ontario.

*“The government of Ontario will spend \$41 billion on healthcare this year, consuming 46% of its operating budget. The demographic pressures for this spending to grow are pervasive, immense and upon us now. There is a win-win-win equation to be found in boldly stimulating healthcare innovation and adoption in Ontario. This policy equation will not only have a positive ROI to the taxpayer and for healthcare providers, it will provide much better outcomes for patients. And in the process, it will make Ontario a global centre for medical and biotechnology innovation, building both health and wealth in our province”.*

Stephen Fanjoy, President Therapeutic Monitoring Systems Inc

*“Genesis Genomics, established in Thunder Bay in 2001, has developed an early detection test for prostate cancer that has the potential, globally, to save \$14 billion in healthcare expenses. In the early stages of development the company received funding from private investors and a variety of federal and provincial government grants and programs. The government did what it could for us to develop the products. But what would facilitate our growth now is if the Ontario Ministry of Health would take a first adoption stance on technologies developed here. Not only would it save the government money, but more importantly, it would validate the technology globally. This would create immediate revenue streams and our company would be contributing to the tax coffers.”*

Robert Poulter, CEO, Genesis Genomics

### **6.3 Establishing Long-Term Priorities**

Finally, the long-term nature of the industry was highlighted, and the need to enhance the dialogue between industry and government. Specific comments were made about the implementation of the OITC and SR&ED programs, the simplification and co-ordination of the application process and the creation of new programs to complement existing ones. (Table 7)

It was recognized that while the current crisis in the industry may require some short-term attention, in the longer term increased collaboration between industry and both government and academia will maximize the positive benefits for all stakeholders. It is hoped that initial recommendations from the industry CEOs in this report lead to the short-term implementation of their recommendations and the establishment of a CEO working group to look in more detail at some of the longer-term issues identified. OBIO is pleased to present these findings and looks forward to continuing to work on this initiative for the Ontario-headquartered bioscience industry.

#### **Table 7: Recommendations Regarding Long Term Priorities**

- Modification of SR&ED program
- Simplification of government requirements to qualify for existing programs
- Develop a Canadian program similar to the US SBIR program to fund start-up companies
- Tax credits for work done in Ontario

## Appendix A – Industry Participation

Industry	
Drug Development	29%
Therapeutic	26%
Diagnostic	17%
Medical Device	14%
Other	11%
Contract Research Services/Manufacturing	9%
Bioinformatics	3%

Revenue for Last Fiscal Year	
\$0	46%
<\$1M	35%
<\$10M	8%
>\$10M	5%

Source of Revenue (based on the 54% reporting revenue)	
Sales to third parties	59%
Income from licensing	41%

Ownership	
Public	32%
Private	68%

Annual Financial Support for Receiving Companies	
Provincial	Average: \$211,684
Federal	Average: \$583,750

Stage of Company	
Early R&D	39%
Market Ready	28%
Clinical Phase (I, II, III)	19%
Revenues	14%

Total Equity Investment	
Founders	Average: \$3,429,460
Angels	Average: \$3,383,947
VC	Average: \$4,178,842
Public Market	Average: \$21,925,000

Employees	
1 to 10	56%
11 to 50	33%
51 to 100	10%
>100	0%

Biggest fiscal issue in the next 12 months	
Raising external finance	51%
Maintaining working capital	15%
Funding clinical trials	13%
Survival	13%
Maintaining workforce	3%
Funding patent development	3%
Funding research	3%

# Appendix B - Additional Justification for Proposed Changes

## 1. Ontario Innovation Tax Credit (OITC)

The following three issues were raised in our working groups and identified during the CEO consultative process data review.

### a. Amount of monies refunded for research dollars spent

A higher rate of provincial research and development tax credit is available in Quebec than Ontario (although there are some differences in eligibility and ceilings).

### b. Cash flow associated with OITC

Access to cash could be improved if OITC tax credits could be received more quickly. Several mechanisms for achieving this were discussed, such as paying them out quarterly. One idea would be to include the OITC refundable tax in the EDC program that provides a guarantee to Canadian lenders so they can advance a loan with the benefit of the EDC guarantee.

### c. Eligibility Requirements

Examples were raised during the consultative process of activities that were deemed as not eligible by Revenue Canada, and hence for the OITC. It was suggested that some of these criteria be reviewed to encourage a greater emphasis on commercialization activities rather than pure research.

## 2. Biopharmaceutical Investment program (BIP)

The current program was established to meet the needs of large pharmaceutical companies and has not been widely taken up. It was felt that several steps could be taken to allow for more Ontario based companies (engaged in clinical trials) to be eligible. Specific suggestions made included:

- Allow earlier stage companies, and those not in the human therapeutic market to apply
- Reduce the minimum amount to be spent (currently \$5 million) requirement
- Allow medical device and diagnostic companies to participate

## 3. Ontario Emerging Technology Fund (OETF)

As the fund is still in its early stages, limited suggestions were made that could affect the day-to-day operation of the fund, however some concerns were raised around:

- The size of the fund, since \$50 million per annum including follow on funding would probably be used up quickly.
- The minimum qualifying investment level would preclude many initial funding rounds or Business Angel investment. This may be worth re-considering and a lower level adopted.
- Many small publically traded companies are currently struggling to raise finance, but are ineligible; perhaps the solution is to provide a similar fund for these companies.

# Appendix C

## A. Additional Support for the Modification of the OITC tax program

Changing the OITC is the single most important recommendation made by the CEOs in the consultation. Sixty-eight percent (68%) of companies reported that they are eligible for OITC with an average claim of \$183,666 representing an annual total provincial innovation tax credit for biotech companies of approximately \$9 million. Many of Ontario's CEOs voiced that Quebec used a higher percentage of eligible SR&EDs (37.5%) to calculate the company's tax credit than did Ontario (10%). By following Quebec's lead and increasing the OITC to 37.5%, Ontario would provide a needed increase of cash for qualifying companies. CEOs reported that an increase in OITC would enhance their operations via an increase in R&D expenditures and jobs. To the Province this represents an approximate OITC increase of \$25 million and an approximate total of \$34 million.

Additionally, the CEOs reported the importance of increasing the frequency of OITC payments to enhancing their ability to achieve business milestones and maintain jobs. Quebec has taken the lead on this issue in response to industry demands. In October 2009, the Quebec Ministry of Economic Development, Innovation and Export trade announced the Quebec Biopharmaceutical Strategy with initiatives designed to support the development of biopharmaceutical and biotechnology firms. Acting on BioQuebec's recommendation to provide immediate financial support for biotechnology firms, the Government intends to provide Investment Quebec with \$30.95 million over three years which in part will be dedicated to administer the quarterly reimbursement of QITC (Quebec Innovation Tax Credits). Eligible companies are engaged in the development of human health products which will receive approval from the therapeutic division of Health Canada and will have R&D expenditures greater than revenue. Quarterly credit cheques will be issued by Investment Quebec and amounts will be calculated based on historic data and projected R&D spend.

## The Ontario Innovation Tax Credit

The example below demonstrates the net impact to a company of an increase in OITC. There is a difference in the definition of eligible costs used to calculate the tax credit between Quebec and Ontario. Ontario provides a 10% credit on all qualifying SR&ED expenditures incurred in the province of Ontario up to an expenditure limit of \$3,000,000 for qualifying corporations. Quebec provides a variety of tax credit incentives but one of their most popular programs is their R&D wage tax credit whereby qualifying CCPC's can get up to a 37.5% credit on wages up to an expenditure limit of \$3,000,000. However, there is a clear advantage to Ontario companies versus Quebec companies from an increase of the OITC to 37.5%.

### Example:

Assume a CCPC in Ontario has taxable paid-up capital and federal taxable income in the preceding taxation year not exceeding \$25 million and \$500,000. Further assume the CCPC incurs \$1,000,000 in qualifying SR&ED expenditure in Ontario including salaries, materials, and overhead costs. As seen in Table 8, an increase in the OITC rate to 37.5% results in increased total tax credits by approximately \$179,000 to \$594,000.

**Table 8: Example: SR&ED Ontario project of CDN\$ 1million**

Tax Incentive	Gross Expenditures	Present tax credit	OITC increased to 37.5%
<b>OITC<sup>a</sup>:</b>	Salaries (\$400,000) + Materials (\$300,000) + Overhead (\$300,000)	\$100,000	\$375,000
Federal refundable tax credit:	(\$1,000,000 less OITC from above of \$100,000) * .35	\$315,000	(1,000,000-375,000)*.35 \$218,750
Total		\$415,000	\$ 593,750

<sup>a</sup> OITC - eligible SR&ED expenditures include salaries, materials, lease costs, third party payments and overhead costs incurred in the province of Ontario.

## The Quebec Refundable Tax Credit

For a similar CCPC incurring similar SR&ED expenditures but in Quebec instead of Ontario, Table 9 estimates the total tax credits to be approximately \$32,000 or 8% larger. However, if the proposed change to the OITC program is approved there would be a clear advantage to doing more R&D in Ontario versus Quebec.

**Table 9: Example: SR&ED Quebec project of CDN\$ 1million**

Tax Incentive	Qualifying Expenditures (salaries only)	Tax credit
Québec refundable tax credit <sup>a</sup>	\$400,000 X 37.5%	\$150,000
Federal refundable tax credit:	\$1,000,000 -150,000 * 35%.	\$297,500
Total		\$ 447,500

<sup>a</sup> Quebec - R&D Wage credit - eligible expenditures include Quebec salaries and wages but you can also claim 50% of the contract amounts paid to unrelated Quebec contractors

# Appendix D

## Ontario Bioscience CEO Consultation

The Ontario biotech industry is in crisis as the global economy and an overall decrease in available risk capital shorten the runways of many small to mid-size bioscience companies in our province. Concerned leaders of Ontario bioscience companies organized six CEO Working Groups over the last several months and provided OBIO with recommendations on key tax and policy changes, which when implemented, will make an important contribution to the sustainability and future growth of this industry.

Please strengthen our industry's cause by taking 15 minutes to vote and complete this questionnaire. As you proceed you will be asked to add your insights and recommendations to the work completed in the CEO Working Groups. Please submit your answers and comments by Oct 19, so your feedback can be included in a report detailing industry-generated recommendations to sustain and grow the Ontario life sciences sector in 2010 and beyond. This report will be presented to key Provincial Ministries including the Ministries of Finance and Research and Innovation. The report will be unveiled to all OBIO CEO Members at the First Annual OBIO Bioscience CEO Meeting held in early in November 2009.

All data collected during this consultation will be considered confidential and not shared with third parties. Individual participants will not be identified, nor will contributors of specific comments, opinions or answers made in this questionnaire be identified.

The CEO Working Groups identified the need for change to the following three provincial programs to better serve our sector. Summaries of these programmes are included below, with links to the appropriate web sites.

## Program

### Ontario Emerging Technology Fund (OETF)

OETF is a direct investment fund managed by the Ontario Capital Growth Corporation (OCGC), an agency of the by the Ministry of Research and innovation. The \$250 million fund is over a five-year term, with a maximum of \$50 million per year that is co-invested alongside Qualified Investors into innovative, private, Ontario companies. OCGC's initial investment will not be more than \$5 million and a maximum of \$25 million will be invested into a company over the life of the fund. At no point will the OCGC's investment exceed the amount of the largest Qualified Investor's investment. Eligible companies must be in one of the three key sectors including clean technology, advanced health technologies and digital media, information and communication technology.

**For more information visit: [www.ocgc.gov.on.ca/site/en/funds/ontario-emerging-technologies-fund/](http://www.ocgc.gov.on.ca/site/en/funds/ontario-emerging-technologies-fund/)**

### Biopharmaceutical Investment Program (BIP)

BIP is a \$150 million five year discretionary, non-entitlement program run by the Ontario Ministry of Research and Innovation. The program will fund up to 20% of the eligible costs of projects worth \$5 million or more. Eligible companies must be situated in Ontario and have a primary source of business coming from patented products with marketing approval in Canada, USA, UK or Japan. At least one patent must be for a human health drug product and must be approved for sale. Eligible projects must be related to incremental increase in the company's R & D and/or advanced manufacturing of innovative drugs. Eligibility excludes any projects for R & D and/or manufacturing related to medical devices, human non-medical products, or for business restructuring or regular capital reinvestment.

Of the \$150 million available, the BIP program has awarded \$13.9 million to Sanofi-Aventis, \$900,000 to Pfizer, \$4.9 mil-

lion to Purdue Pharma.

**For more information visit: [www.mri.gov.on.ca/english/programs/bip/program.asp](http://www.mri.gov.on.ca/english/programs/bip/program.asp)**

## **Ontario Innovation Tax Credit (OITC)**

A 10% refundable tax credit available to all public and private corporations for expenditures on scientific research and experimental development (SR & ED) carried out in Ontario. As of 2009, tax credits are administered by Canada Revenue Agency. Eligible corporations must have a permanent establishment in Ontario and must qualify for the federal investment tax credit under section 127 of the Income Tax Act (Canada). OITC offers a maximum claim of \$300, 000 per taxation year.

**For more information visit: [www.canadabusiness.ca/servlet/ContentServer](http://www.canadabusiness.ca/servlet/ContentServer)**

## **The following Impact Definitions apply throughout this questionnaire:**

**Gain Eligibility:** Allow your company to qualify for the program or increase the amount you can claim

**Extend Runway:** Increase the amount of time your company can continue core operations to achieve milestones and maintain the current number of employees.

**Add Jobs:** Create additional positions within your company.

**Increase Investment:** Ability to attract capital investments to achieve company milestones.

**Sales:** Increase in top line sales that will achieve company milestones.

**Ontario Base:** Continue operations in Ontario rather than locate to another jurisdiction.

**R&D Spend:** Increase your R&D expenditure to achieve company milestones.

<b>1) Are you currently eligible for the OETF program?</b>	
Yes	
No	
Don't know	
<b>2) The CEO Working Groups proposed The following changes to the OETF program.</b>	
<b>a) Tell us what change to the OETF you want OBIO to recommend to the Provincial Government that is most significant to your company. Please indicate your choice with a ranking from 1 to 3 (1: most significant, 3: least significant)</b>	
Lower minimum investment threshold from \$1 million	
Make Public companies with low market capitalization( e.g. < \$20 million) eligible for the program	
Create a separate OETF fund for publicly traded companies	
<b>b) Tell us how each change impacts your business in terms of the parameters shown (tick all that apply). Please refer to the Impact Definitions at the start of this questionnaire. Lower minimum investment threshold from \$1 million</b>	
Gain Eligibility	
Extend Runway	
Add Jobs	
Increase Investment	
Sales	
Ontario Base	
R&D Spend	
<b>Make Public companies with low market capitalization ( e.g. &lt; \$20 million) eligible for the program</b>	
Gain Eligibility	
Extend Runway	
Add Jobs	
Increase Investment	
Sales	
Ontario Base	
R&D Spend	

<b>Create a separate OETF fund for publicly traded companies</b>	
Gain Eligibility	
Extend Runway	
Add Jobs	
Increase Investment	
Sales	
Ontario Base	
R&D Spend	
<b>c) 1. Do you propose any other change to the OETF program?</b>	
<b>2. Based on your response above, tell us how your proposed change impacts your business in terms of the parameters shown (tick all that apply).</b>	
Gain Eligibility	
Extend Runway	
Add Jobs	
Increase Investment	
Sales	
Ontario Base	
R&D Spend	
<b>3) Are you currently eligible for the BIP program?</b>	
Yes	
No	
Don't know	
<b>4) The CEO Working Groups proposed The following changes to the BIP program.</b>	
<b>a) Tell us what change to the BIP you want OBIO to recommend to the Provincial Government that is most significant to your company. Please indicate your choice with a ranking from 1 to 3</b>	
<b>(1: most significant, 3: least significant)</b>	
Expand eligibility to include Medical Device/Diagnostic Companies	
Eliminate requirement for companies to have a marketed human therapeutic product	
Lower the \$5 million minimum contribution	

**b) Tell us how each change impacts your business in terms of the parameters shown (tick all that apply).**

**Please refer to the Impact Definitions at the start of this questionnaire.  
Expand eligibility to include Medical Device/Diagnostic Companies**

Gain Eligibility	
Extend Runway	
Add Jobs	
Increase Investment	
Sales	
Ontario Base	
R&D Spend	

**Eliminate requirement for companies to have a marketed human therapeutic product**

Gain Eligibility	
Extend Runway	
Add Jobs	
Increase Investment	
Sales	
Ontario Base	
R&D Spend	

**Lower the \$5 million minimum contribution**

Gain Eligibility	
Extend Runway	
Add Jobs	
Increase Investment	
Sales	
Ontario Base	
R&D Spend	

**c) 1. Do you propose any other change to the BIP program?**


<b>2. Based on your response above, tell us how your proposed change impacts your business in terms of the parameters shown (tick all that apply).</b>	
Gain Eligibility	
Extend Runway	
Add Jobs	
Increase Investment	
Sales	
Ontario Base	
R&D Spend	
<b>5) a) Are you currently eligible for the OITC program</b>	
Yes	
No	
Don't know	
<b>b) If you answered "Yes" above, what was the value of your OITC last year?</b>	
<b>6) The CEO Working Groups proposed The following changes to the OITC program.</b>	
<b>a) Tell us what change to the OITC you want OBIO to recommend to the Provincial Government that is most significant to your company.</b>	
<b>Please indicate your choice with a ranking from 1 to 3 (1: most significant, 3: least significant)</b>	
Increase OITC from 10% to 37.5% thus increasing the maximum claim from \$300,000 to \$1.125 million	
Increase frequency of OITC payment from annually to quarterly	
Expand the eligible qualifying expenditures (e.g. market research)	

**b) Tell us how each change impacts your business in terms of the parameters shown (tick all that apply). Please refer to the Impact Definitions at the start of this questionnaire.**

**Increase OITC from 10% to 37.5% thus increasing the maximum claim from \$300,000 to \$1.125 million**

Gain Eligibility	
Extend Runway	
Add Jobs	
Increase Investment	
Sales	
Ontario Base	
R&D Spend	

**Increase frequency of OITC payment from annually to quarterly**

Gain Eligibility	
Extend Runway	
Add Jobs	
Increase Investment	
Sales	
Ontario Base	
R&D Spend	

**Expand the eligible qualifying expenditures (e.g. market research)**

Gain Eligibility	
Extend Runway	
Add Jobs	
Increase Investment	
Sales	
Ontario Base	
R&D Spend	

<b>c) 1. Do you propose any other change to the OITC program?</b>	
<b>2. Based on your response above, tell us how your proposed change impacts your business in terms of the parameters shown (tick all that apply).</b>	
Gain Eligibility	
Extend Runway	
Add Jobs	
Increase Investment	
Sales	
Ontario Base	
R&D Spend	
<b>7) Establishing Current Priorities for OBIO</b>	
<b>a) Tell us which programs below are most important to your company. Please indicate your choice with a ranking form 1 to 3 (1: most important, 3: least important)</b>	
BIP	
OITC	
OETF	
<b>b) Tell us which programs below are most important to the industry. Please indicate your choice with a ranking form 1 to 3 (1: most important, 3: least important)</b>	
BIP	
OITC	
OETF	

**c) Are there any other provincial programs that should receive immediate attention (i.e. in time for the next budget)?**

**What changes would make these programs more useful - for your company or the industry as a whole? Please comment below:**


**8) Establishing Future Priorities**  
**The CEO Working Groups for OBIO identified 13 initiatives as candidate priorities to be addressed in the mid-term.**

**a) Rate the level of priority your company would assign (or has assigned) to each of the programs listed below. Use a scale from 1 to 5 where “1” means the program is one of your top priorities and “5” means the program is not a priority.**

Tax holidays for foreign talent	
Tax credits for work done in Ontario	
Tax loss monetization reform	
Create a retail investment program	
Flow through shares	
Modification of SRED program	
Simplification of government requirements to qualify for existing programs	
Develop a Canadian program similar to the US SBIR program to fund start-up companies	
Revisions to university IP policy to facilitate licensing to Ontario bioscience companies	
Develop Ontario procurement programs for Ontario companies	
Stimulate Hospital/University/Industry collaborations	
Market Ontario companies more effectively globally	
Make it easier for venture capital companies to invest in Ontario companies	

**b) For only those programs you ranked highest with a “1”, enter the rank of the significance of each top priority program for your company. If you gave ratings of “1” to three (3) programs, then rank them from 1 to 3 in column (b)**

Tax holidays for foreign talent	
Tax credits for work done in Ontario	
Tax loss monetization reform	
Create a retail investment program	
Flow through shares	

Modification of SRED program	
Simplification of government requirements to qualify for existing programs	
Develop a Canadian program similar to the US SBIR program to fund start-up companies	
Revisions to university IP policy to facilitate licensing to Ontario bioscience companies	
Develop Ontario procurement programs for Ontario companies	
Stimulate Hospital/University/Industry collaborations	
Market Ontario companies more effectively globally	
Make it easier for venture capital companies to invest in Ontario companies	
<b>c) Can you identify any other initiatives as candidate priorities to be addressed in the mid-term?</b>	
<b>9) Company Information</b>	
<b>a) For analysis purposes, please provide the following information about your company. This information is confidential and cannot be traced to your company. The aggregate data will be used to quantify the impact of the changes recommended in the report. Please tick boxes and/or fill in information required.</b>	
Therapeutic	
Drug Development	
Medical Device	
Contract Research Services/Manufacturing	
Diagnostic	
Bioinformatics	
Other (Please Specify):	
<b>b) Ownership of company:</b>	
Private	
Public	

<b>c) Stage of Company:</b>	
Early R&D	
Clinical Phase (I, II, III)	
Market Ready	
Revenues	
<b>d) Number of employees:</b>	
1 -10	
11-50	
51- 100	
>100	
<b>e) Company Revenues in last fiscal year:</b>	
\$0	
>\$10M	
<b>f) Source of revenues:</b>	
Sales to third parties	
Income from licensing	
<b>g) Current annual government support (approx):</b>	
Provincial sources \$	
Federal sources \$	

<b>h) Equity investment:</b>	
Founders \$	
Angels \$	
VC \$	
Public market \$	
<b>i) What is biggest fiscal issue in the next 12 months facing your company? (Tick appropriate issue)</b>	
Raising external finance	
Maintaining working capital	
Funding patent development	
Funding research	
Funding clinical trials	
Maintaining workforce	
Survival	
<b>j) What other activities would you recommend OBIO pursue in the next 12 months for the benefit of your company and the industry?</b>	



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