



Natural Resources
Canada

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INVESTMENTS IN FOREST INDUSTRY TRANSFORMATION

PROGRAM GUIDE

Call for Proposals #2
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Canada

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1 Preface

This Guide outlines the general intent of the Investments in Forest Industry Transformation (IFIT) program and its application process. It explains how the Department of Natural Resources (NRCan) will review project proposals submitted in response to the Calls for Proposals in a consistent, fair, and transparent manner.

Proposals will undergo a competitive process and will be evaluated against the criteria outlined in this document. This competitive process will be the basis for soliciting projects for consideration and prioritizing them in order to identify those projects that best advance the program's objectives.

The deadline for submission of project proposals under the second and final Call for Proposals is **WEDNESDAY, SEPTEMBER 28, 2011 at 17:00 EDT**. Proposals received after the closing date and time of the second Call for Proposals will not be eligible for consideration for funding under the IFIT program. Applicants should note that submission of a project proposal and other required information does not guarantee that the proposed project will be approved for funding under the program.

Any approvals under this process will be conditional upon the execution of a contribution agreement. Until a written contribution agreement is signed by both parties, no commitment or obligation exists on the part of NRCan to make a financial contribution to any project.

For additional information, contact IFIT@nrcan.gc.ca or consult www.forest-transformation.nrcan.gc.ca. Program changes or notices will be made available on the website.

1.1 Submission of Applications

Electronic applications are preferred. Applications may be submitted by email to IFIT@nrcan.gc.ca; or via memory key, CD, or hard copy to the address below:

Investments in Forest Industry Transformation
Natural Resources Canada, Canadian Forest Service
615 Booth St, 1-160-24
Ottawa ON
K1A 0E9

2 Program Description

2.1 Overview

Investments in Forest Industry Transformation (IFIT) is a \$100M, four-year NRCan program, launched in 2010. The objective of IFIT is to invest in innovative technologies to support a more diversified, higher-value product mix in the forest sector. These products include bioenergy, biomaterials, biochemicals, and next generation building products. Over the long term, these investments will improve the Canadian forest sector's economic viability and environmental sustainability and support lasting industry transformation.

Expected outcomes of the program include:

- New or increased production of bioenergy, biomaterials, biochemicals, and next generation building products by the forest sector;
- Increased deployment of first-in-Canada applications of innovative technologies (with preference given to Canadian technologies), or new applications of existing technologies not traditionally applied in the forest sector; and,
- The creation of innovative partnerships with sectors and stakeholders that are not traditional forest sector partners, thus leading to new business models for the forest sector.

2.2 Program Duration

The IFIT program commenced on August 2, 2010 and ends on March 31, 2014. Completion of physical works on selected projects may extend past the program's end date but all costs eligible for IFIT funding must be incurred prior to the program's end date.

2.3 NEW: Funding Categories

It is recognized that projects submitted to IFIT may be of a variety of sizes, funding amounts, and submitted by a wide range of company sizes. Therefore, projects submitted to the IFIT program under the second Call for Proposals will be streamed into two funding categories based on the amount of funds requested. While the majority of IFIT funds will be reserved for projects requesting over \$2 million in funds from IFIT, a smaller funding envelope will be reserved for projects requesting \$2 million or less in IFIT funds.

Applicants must provide different levels of supporting information with their application, depending on the level of funding requested. Projects requesting over \$2 million in funding from IFIT must provide a business plan, preliminary engineering study, cost estimates, site layout and a schedule with their application. Applications requesting less than \$2 million from IFIT are required to supply a process flow diagram and a schedule, although providing additional financial and technical documentation may add to the depth and

credibility of the application. Specific requirements are outlined in the table below.

Projects Requesting \$2M or Less	Projects Requesting >\$2M
<ul style="list-style-type: none"> • Application Form and Appendices • Process Flow Diagram • Project Schedule 	<ul style="list-style-type: none"> • Application Form and Appendices • Technical Supporting Documentation (preliminary engineering study, cost estimates, site layout) • Business Plan • Project Schedule • Process Flow Diagram

2.4 Maximum Amount Payable and Stacking Provisions

The maximum amount payable by IFIT will be 50% of total project costs up to a maximum of \$10 million to a single project. The total Canadian government assistance (federal, provincial/territorial and municipal) cannot exceed 100% of the total project costs.

Prior to signing contribution agreements, recipients will be required to disclose all expected sources of funding applicable to the proposed project, including contributions from other federal, provincial/territorial and municipal governments, as well as private sector sources.

It is the responsibility of the Applicant to contact other governmental program authorities, from which they may receive funding, to ensure that the stacking provisions applying to these other sources of funding are respected.

2.5 Eligible Costs

For funding under the IFIT program, eligible costs (as listed below) must be incurred after the date on which applicants are notified by signed letter of a proposal's acceptance for funding under the IFIT program and before March 31, 2014. Costs are considered "incurred" as they become payable to the goods/service provider. While costs incurred by applicants before a contribution agreement is signed are at the applicant's own risk, these costs may be considered eligible at the Minister's discretion, subject to the terms and conditions of the contribution agreement.

Note that until a contribution agreement is signed by both parties, no commitment or obligation exists on the part of NRCan to make a financial contribution to any proposed project.

Eligible costs under this Program will be directly related to program objectives and include the following:

- Capital expenses
- Material and supplies
- Salaries and benefits

- Overhead expenses (considered to a maximum of 1.5% of project costs)
- Sub-contractors and consultants (professional, scientific, technical, and management services)
- Travel (including meals and accommodation)
- Training costs directly associated with the project implementation
- Printing services
- Licence fees and permits

Any costs associated with the production or export of softwood lumber products are not eligible under this program.

The IFIT program will not provide funding to projects dealing with technologies at the research, development and/or experimentation stages. The proposed project should be at a pilot to commercial scale.

2.6 Basis and Timing of Payments

The Government of Canada's fiscal year is the period beginning on April 1 of any year and ending on March 31 in the next year. Details will be provided within each contribution agreement regarding the documentation that is required when submitting a claim for payment. The Contribution Agreement will also stipulate the start date and end date of eligible costs for each project.

Payments will be made based on receipt and approval of financial reports signed by the recipients' Chief Financial Officer (or duly authorized officer) outlining actual eligible costs incurred for the project. Payments will be made based on measurable, pre-defined project milestones, as well as upon receipt of the documentation as defined in the contribution agreements.

Advance payments may be permitted in accordance with the Treasury Board Directive on Transfer payments. They will only be made when requested by the Proponent, and based on an assessment of their financial need, level of risk and cash-flow requirements.

Final payment will not be made until all agreed-upon project activities have been completed by a recipient and are deemed acceptable by NRCan. In order to ensure appropriate project oversight, a reasonable holdback may be applied and released once all conditions of the contribution agreement have been met.

3 IFIT Application and Evaluation Process

3.1 Overview

The second and last Call for Proposals will be open until **September 28, 2011**.

Applicants are required to complete the IFIT Project Application Form and attach additional supporting documentation as required. Instructions and further information are included in the Application Form (available at www.forest-transformation.nrcan.gc.ca).

Applications must be received by the Program by WEDNESDAY, SEPTEMBER 28, 2011 at 17:00 EDT, which constitutes the closing date for the IFIT Call for Proposals. NRCan will confirm, by e-mail, receipt of each application package.

No modifications to submitted proposals or additional supporting information will be accepted after the closing date and time, unless specifically requested by the IFIT program. Projects received after the closing date will not be eligible for funding under the IFIT program.

Once the Call for Proposals is closed, NRCan reserves the right to publicly disclose, any or all of the information provided by applicants in questions 1-4 of the Executive Summary of the application form.

NRCan will use a two-phase selection process to identify projects for funding consideration (Figure 1). In Phase 1, projects meeting the mandatory criteria will be assessed by a review panel against the program's rated criteria, as outlined in section 3.2 below. Following this process, a recommended short-list of highly ranked projects will advance to Phase 2. NRCan will notify all applicants of their status in the selection process after Phase 1 is completed.

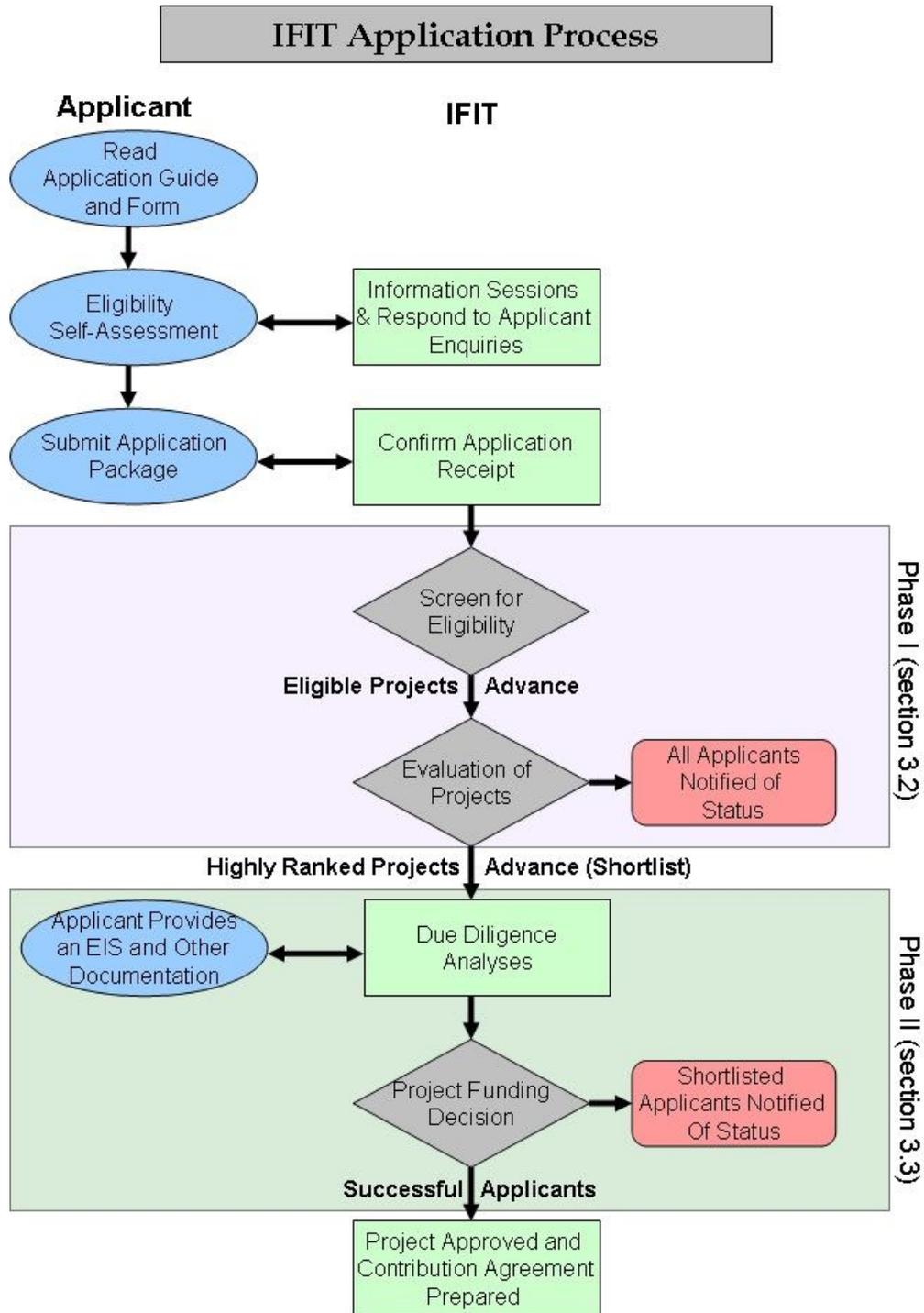
Applicants whose projects advance to Phase 2 will be asked to submit additional information in order to remain under consideration for funding in the second phase. They will have an additional six weeks to prepare and submit an Environmental Impact Statement (EIS) if a Federal Environmental Assessment (EA) process is required. NRCan will use the EIS to assess the project's potential to generate significant adverse environmental impacts. During this time, NRCan may also require that an independent, third party financial risk assessment be performed of each applicant on the short-list.

Other due diligence analyses may be required of projects on a case-by-case basis depending on the project parameters.

The results of the EIS and financial risk assessment will inform the development of the final list of successful projects. NRCan will contact short-listed applicants once the final funding decisions have been made. Program officials will then work with the selected successful recipients of IFIT funding to develop contribution agreements based on the

proposed projects. Recipients should note that while contribution agreements may be drafted / signed and eligible costs may be incurred prior to the completion of the EA, no payments will be made prior to the successful completion of the EA process and any other applicable contractual conditions.

Figure 1. CALL FOR PROPOSALS APPLICATION PROCESS



3.2 Phase 1: Evaluation of Criteria

3.2.1 Mandatory Criteria

To be eligible for funding under IFIT, projects must meet all mandatory criteria. The responsibility lies with the applicant to demonstrate, in the Application Form, that the proposed project clearly meets each mandatory criterion. Failure to clearly demonstrate that the project meets each mandatory criterion may result in the project being eliminated from consideration for funding.

1. **Eligible Recipients:** Eligible recipients are companies that produce forest products (products made from/with wood fibre which may be determined by NAICS code as identified in the Application Form) and own at least one existing forest product manufacturing facility located in Canada (i.e. open or closed pulp, paper, panelboard or engineered wood products mills).
2. **Technology Advancement:** The proposed project must constitute an advancement of forest sector technology in Canada. Once implemented, the advancement will employ new technologies that produce (or will lead to the future production of) bio-products or next-generation building products. The proposed project is at a pilot to commercial scale, and the technology does not yet exist, at the proposed scale and specifications, in a forest sector industrial facility in Canada.
3. **Location:** Project site is located in Canada and the project is integrated with existing industrial processes in the forest sector. This includes projects located at existing mill sites (open or closed) and projects physically connected to existing forest sector industrial processes or facilities.
4. **Wood Fibre:** Project is primarily derived from wood fibre. This includes projects involving the industrial processing of wood fibre and projects directly related to or reliant on by-products generated by wood fibre industrial processing activities.

3.2.2 Rated Criteria

Projects which clearly meet each of the mandatory criteria will then be evaluated against the program's rated criteria, as outlined below.

1. **Technical Feasibility:** Degree to which the project is expected to be technically feasible and generate the desired outcomes.

This criterion requires applicants to substantiate the claims that the products and processes can be implemented; are likely to perform as expected; and will generate the quantity and quality of product identified by the applicant. Preference will be given to projects that can demonstrate product standards have been met, technological risk mitigation strategies exist, and the technical team has experience in project implementation.

2. **Innovation:** Preference will be given to projects demonstrating greater innovation and novelty, as demonstrated by the nature and scale of the technological innovation, as well as to projects involving commercial scale technology. Preference will be given to projects demonstrating a higher level of Canadian innovation.

This criterion requires applicants to demonstrate the level of innovation of their project. Projects implementing technology for the first time in the forest sector, or adapted for the first time from other industry sectors will be preferred over technologies that are already operational in the forest industry in other countries and are being imported to Canada for the first time. As the IFIT program aims to support the commercialisation of innovative technology, preference will be given to projects involving commercial scale technology designed for the production of a marketable quantity of a product rather than pilot scale technology (which is considered to be at an industrial scale but designed to produce a small quantity of a product for technical and market analysis). Projects demonstrating a higher level of Canadian innovation, where the intellectual property or intelligence of the technology originates in Canada, will also be given greater consideration.

3. **Partnerships:** Preference will be given to projects involving strategic partnerships with companies, ideally from industrial sectors not traditionally associated with forest sector projects (such as the plastics, chemical, or energy sectors), who are directly involved and have an active/engaged role and stake in the success of the proposed project. Preference will also be given to projects demonstrating a high proportion of total project costs leveraged from industry partners and/or provinces (rather than other federal partners/programs) and those that can demonstrate secure/confirmed partnerships.
4. **Business Plan:** Preference will be given to strong financial analysis as well as, credible and complete business plans. For projects at the commercial scale, priority will be given to projects with stronger financial prospects based on key economic indicators (such as ROCE, ROI, EBITDA, etc.).

Applicants requesting over \$2M in funds from IFIT are required to submit a business plan with their application. All project applications, regardless of the amount of funding requested, are required to submit the Financial Analysis Template (IFIT Application Form Appendix B).

Preference will be given to applications with a complete and credible business plan including financial indicators, financial forecasting, ability to mitigate risk, knowledge and accessibility of the market, and the project team's experience in completing projects on budget and schedule.

5. **Fibre Supply**: Preference will be given to projects that consume fibre from currently underutilized sources; waste streams produced by the industrial processing of wood fibre; and/or projects that will not divert fibre from existing higher-value uses.

Applicants should clearly demonstrate how they meet the above criterion and indicate that a secure long-term supply mechanism/strategy exists for their project.

6. **Timing**: Preference will be given to applicants who propose the most credible and defensible project schedule information. Preference will also be given to projects scheduled for completion prior to March 31, 2014.
7. **Sector Diversity**: In order to ensure equitable distribution of federal funds across the forest sector, preference will be given to firms ineligible for Pulp and Paper Green Transformation Program funding.
8. **Value for Investment**: Preference will be given to projects where requested IFIT funds are of a lower proportion.

In addition to the above criteria, applicants are also requested to provide information on the project's environmental benefits; advantages for local communities; and strategic contribution to the transformation of the Canadian forest sector.

Projects that are highly-ranked in the Phase 1 evaluation will advance to Phase 2 of the project selection process.

3.3 Phase 2: Short-List Project Analysis

The highly-ranked projects emerging from the Phase 1 evaluation above will move to the program's "short-list". These applicants will be requested to provide additional information to support the final selection decisions. Short-listed project applicants will be asked to provide the following key documents:

- Financial information, that will be used to support a third party financial risk assessment; and
- An Environmental Impact Statement (EIS) for the proposed project.

3.3.1 *Financial Risk Assessment*

Applications that are short-listed will be expected to undergo a financial risk assessment. The IFIT Program will contact applicants advancing to the second phase to provide specific instructions relating to the financial risk assessment. The financial risk assessment is intended to support the assessment of the overall financial viability of the project, the applicant and any partners throughout the implementation of the project. The financial risk assessment will be conducted by an independent third party on behalf of NRCan, at the expense of NRCan.

Failure to submit information supporting the financial risk assessment in a timely fashion may result in elimination from the Application Process.

3.3.2 *Environmental Assessment*

Under the *Canadian Environmental Assessment Act* (CEAA), a decision by NRCan to fund a project under IFIT may require that a federal environmental assessment (EA) be conducted. Information on the CEAA can be found at www.ceaa-acee.gc.ca.

All applicants are required, as a first step, to complete the *Environmental Assessment Checklist* in the Application Form (available at www.forest-transformation.nrcan.gc.ca), which assists NRCan in determining whether or not an EA will be required. Shortlisted applicants with project proposals that are not exempt from an EA under the CEAA will be required to submit an Environmental Impact Statement (EIS).

Short-listed applicants advancing to the second phase will be provided six weeks to submit an EIS (when required), in accordance with the format and guidelines identified in the IFIT EA Guide, available at www.forest-transformation.nrcan.gc.ca.

Applicants that do not complete the EIS within the given timeframe and/or do not follow the recommended format may be eliminated from the application process.

The IFIT EA Guide provides clarification on the department's and the applicant's EA responsibilities, and supports the efforts of applicants in preparing related documentation in

support of their IFIT funding applications. This information is required to enable the Government of Canada to fulfill its obligations under the CEAA.

Specifically, the IFIT EA Guide:

- Sets out and clarifies the EA process followed by NRCan under the CEAA for projects likely to receive IFIT funding; and
- Provides support and tools for applicants to assist them in meeting their EA requirements by providing guidance on the preparation of an EIS.

Given timeline considerations, applicants may wish to begin gathering any information necessary for the EIS process while the primary screening phase is underway. This step remains fully at the discretion of the applicant.

4 Recipient Information

This section contains information which will be relevant only to those applicants whose projects are selected for funding through IFIT by NRCan.

4.1 Environmental Assessment Considerations

In most cases, the CEAA will require that an EA is conducted before NRCan can, as a Responsible Authority, provide any form of financial assistance for the purpose of enabling a project to be carried out.

While a contribution agreement may be signed prior to completion of an EA, invoices will not be paid until the EA is completed and NRCan has determined that the project is not likely to cause significant adverse environmental impacts.

Any information related to the EA of proposed projects is public information and, as such, will be made available to the public in accordance with the *Access to Information Act* (<http://laws.justice.gc.ca/en/A-1/index.html>) and through the Canadian Environmental Assessment Registry (http://www.ceaa.gc.ca/050/index_e.cfm).

4.2 Aboriginal Consultation

The Supreme Court of Canada ruled that the Crown has a legal duty to consult, and where appropriate to accommodate, when the Crown has real or constructive knowledge of the potential existence of Aboriginal rights or title, and the Crown contemplates conduct that might adversely affect those rights, whether those rights have been established (proved in court or agreed to in treaties) or whether there is potential for rights to exist. In these instances, consultation should occur prior to the federal government taking any action.

For each project proposal that advances to the second phase, IFIT will be reviewing consultation requirements and, where appropriate, may conduct a consultation process. It should be noted that payment of all IFIT contribution agreements is subject to the successful completion of applicable Federal EA and Aboriginal Crown consultation requirements.

Proponent consultation with Aboriginal groups is not required as part of the EIS which may be required by IFIT Program (for those Applicants advancing to the second phase). However, if submitting an EIS to the IFIT Program, applicants are encouraged to report if they have already conducted consultation or engagement in relation to the project proposal, or as part of the applicant's ongoing operations/corporate commitments.

4.3 Confidentiality and Security of Information

The *Access to Information Act*, (the “Act”) governs the protection and disclosure of information, confidential or otherwise, supplied to a federal government institution.

Paragraph 20(1) (b) of the Act states that:

a government institution [such as NRCan] shall refuse to disclose any record requested under the Act that contains financial, commercial, scientific or technical information that is confidential information supplied to a government institution by a third party and is treated consistently in a confidential manner by the third party.

Paragraph 20(1) (b) of the Act sets out two mandatory criteria in order to protect Applicant’s confidential information supplied to NRCan from disclosure. First, the Applicant’s documents supplied to NRCan must contain financial, commercial, scientific or technical information. Second, the Applicant must consistently treat such information in a confidential manner. In other words, NRCan will protect the Applicant’s confidential information in its possession as much as the Applicant protects said confidential information in its own establishment.

For more information on this subject, a careful reading of the entire Section 20 of the *Access to Information Act* is greatly encouraged (<http://laws.justice.gc.ca/en/A-1/index.html>).

4.4 Tax Treatment

The CRA bulletin IT-273R2 Government Assistance – General Comments (<http://www.cra-arc.gc.ca/E/pub/tp/it273r2/273r2-e.pdf>) may be of interest to taxpayers participating in the program. It deals with the income tax treatment of government assistance received by a taxpayer in the course of earning income from business or property and discusses when this assistance is taxable and when it is not. It explains the rules which allow a taxpayer to reduce the cost of a property when such assistance is received in respect of the acquisition of capital property.

All questions concerning the tax treatment of funds received under IFIT should be directed to the Canada Revenue Agency (www.cra-arc.gc.ca).

4.5 Audit Rights

The applicant must:

- keep proper accounts and records regarding the project(s), for at least 5 years after the project completion date;
- permit Government of Canada representatives to audit, inspect and make copies of those accounts and records at all reasonable times, up to 5 years after the project completion date;

- grant the Government of Canada’s authorized representatives access to audit and inspect the qualifying project and related facilities;
- furnish the Government of Canada’s authorized representatives with such information as they may from time to time reasonably require with reference to the documents referred to herein; and
- promptly refund to NRCan any overpayments of the contribution disclosed by an audit.

4.6 Reporting Requirements

Specific reporting requirements will be defined in the contribution agreement, but will likely include the information as laid out below. Regular communication between NRCan and the recipients will be implemented to monitor progress.

Quarterly reporting requirements for recipients include:

- i) a financial report signed by the Chief Financial Officer or Duly Authorized Officer of the organization which outlines Eligible Costs Incurred by task;
- ii) an updated project quarterly cash flow statement and budget; and,
- iii) a description of activities undertaken during the quarter (including results obtained and description of performance measures where applicable), and identification of any concerns that NRCan should be made aware of, and if so, details and mitigation plans regarding these issues.

Annual reporting requirements for recipients will include:

- i) a report depicting how the activities and outputs of the project have been contributing to the overall objectives of the Program and Project; and,
- ii) an assessment of key performance indicators for the project as identified in the Contribution Agreement document.

At the end of the project, recipients will provide:

- i) a financial report that demonstrates how the contribution was spent, with a declaration as to the total amount of contributions or payments received from other sources in respect of the Project;
- ii) a final narrative report to describe how project activities have contributed to the achievement of the objectives of the Project and Program and a final assessment of performance indicators for the project as identified in the Contribution Agreement document to report on short term, intermediate term, and long term outcomes of the Project; and,
- iii) a report outlining any unfinished components of the project, along with a declaration that the firm intends to complete the project within a specified time period.