

2009-2014 Defence Industry Development Investment Attraction Strategy



Mission Statement

- *“To assist small and medium-sized business to gain information on business opportunities at Canadian Forces Base Wainwright.”*

Overview of Defence Industry in BRAED Region

The Defence Industry has played a vital role in the BRAED region from the inception of Canadian Forces Base/Area Support Unit (CFB/ASU) Wainwright in 1941. CFB/ASU Wainwright has prepared units for Second World War, the Korean War, and Afghanistan and is Canada’s first class location for collective training. CFB/ASU Wainwright is located in the Town and Municipality of Wainwright and includes the Canadian Manoeuvre Training Centre (CMTC) and the Land Forces Western Area Training Centre (LFWATC), which are the centers of excellence for collective and individual training respectively.

BRAED would like to continue to build its relationship with CFB/ASU Wainwright through the identification of opportunities and creation on an investment attraction strategy for defence related business. Opportunities may exist to develop and expand on MERX procurement initiatives, such as Project Noctua, where BRAED could work in concert with CFB/ASU to build a business case for the attraction and development of companies to manufacture and service new Unmanned Aerial Vehicles (UAVs) for use in Afghanistan. Upcoming opportunities of interest include the Joint Strike Fighter (JFS) and Joint Support Ship (JSS) initiatives with listings on MERX.

Current Size of CFB/ASU Wainwright

CFB/ASU Wainwright consists of approximately 1,000 personnel at any given time and is the largest employer in the Wainwright area. The Base population may expand by up to 4000 extra soldiers at least twice per year to support special training initiatives.

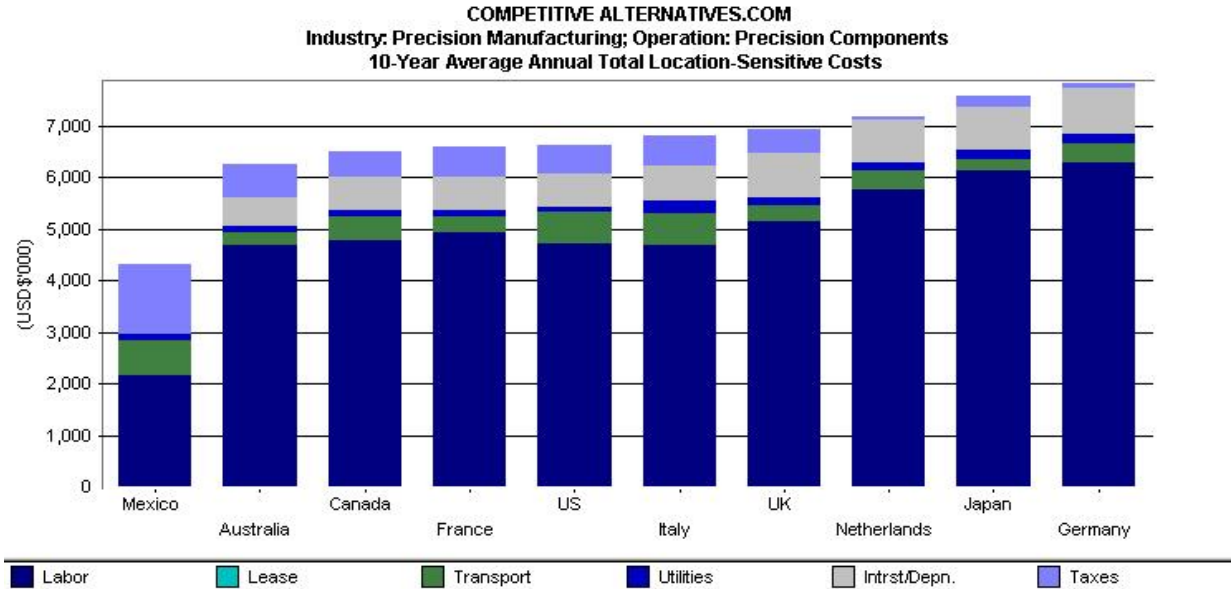
Competitive Advantages of the BRAED region

The BRAED region has many competitive advantage which include:

- Commercial lots available for large manufacturing
- Controlled silent airspace
- Leading edge research
- Growing cluster of military training and testing activities
- Existing footprint of established defence industries
- Positive attitude towards foreign direct investment
- Base encouraging local business development
- Lower costs for land and buildings
- Being closer to the BASE enables a quicker response on contracts
- Knowledge of the area, applicable for service contracts
- Provision of material and/or services to DND establishments in Edmonton and Calgary
- Member companies provide services and/or materials and may be able to do business on a provincial or national level depending on the contracts they undertake
- Lower transportation costs

Each year KPMG conducts a global competitiveness assessment comparing the cost of constructing and operating a business in various international locations. The assessment looks at location sensitive costs, such as labour and transportation rates, utilities and corporate taxes. Western Sky Management Associates ran the KPMG cost competitiveness model for a precision manufacturing plant in 10 international locations to measure the overall cost of conducting business in each relative location. The precision manufacturing industry includes the manufacturing of precise parts, motors, aerospace components and testing equipment and is a good model for cost comparison for Defence Industry business opportunities for use with potential target companies.

The figure below demonstrates the total overall cost of operating a precision manufacturing plant. As seen below, Canada ranked #3 out of 10 possible locations. A detailed breakdown and cost competitiveness ranking is outlined in appendix A.



Network between Base Wainwright Command and BRAED

Key contacts

| <u>BRAED</u> | <u>Base Wainwright Command</u> |
|--------------|---|
| | G.C. Garrard Major major Deputy Commanding Officer Commandant-adjoint Canadian Forces Base/Area Support Unit Wainwright Base des Force Canadiennes/Unité de Soutien de Secteur Wainwright General Delivery Denwood, Alberta T0B 1B0 National Defence Défense nationale Email Courriel: george.garrard@forces.gc.ca Telephone Téléphone 780-842-1363 Local Poste 1210 CSN RCCN 530-1210 Mobile Phone Téléphone cellulaire 780-261-0545 Facsimile Télécopieur 780-842-1808 Government of Canada Gouvernement du Canada |
| | Captain Jennie Judge Base Supply Officer Bldg 593 Denwood AB T0B 1B0 Phone 780-842-1363 ext. 1440 Email : judge.jlf@forces.gc.ca |

Benefits of the network

- Quickly and efficiently provide opportunity notification to local business
- One point of contact to be updated with Base activities and plans
- Information resource to local business capabilities
- Direct promotion through BRAED to local businesses

Goals and outcomes of the network

- Establish new business relationships between Base and local business
- Provide input and direction to the BRAED Defence Industry Task Team
- Reduce time of Base procurement personnel in finding suitable local suppliers

Action Plan Overview

Short-term Goals → 2009-2010

- Development of an activity plan, investment attraction strategy, PowerPoint presentation and fact sheet for identified BRAED/DID opportunities
- Increase communication with CFB/ASU Wainwright and civilian members regarding identified opportunities
- Assist 2 existing businesses located in the BRAED region achieve new contracts that have not had previous contracts with CFB/ASU Wainwright
- Attract 1 new business to the BRAED region that is currently doing business with the Department of National Defence (DND) from outside of the BRAED region

Long-term Goals → 2010-2014

- Continue to develop a relationship with Wainwright Base command
- Conduct one outgoing trade mission to targeted companies linked to identified opportunities in the BRAED region
- Continue to attract people and new business to the region
- Increase the number and diversity of economic opportunities in the BRAED region
- Increase the value of BRAED products and services to BRAED members
- Host 1 incoming mission of a targeted company related to potential investment opportunity.

What can BRAED do to attract or facilitate investment of Defence Industry related business?

- Advocating improvements to road transportation and possibly air transportation infrastructure such as expanding regional airport runways to 7,000 or 10,000 feet to accommodate large commercial transport
- Need the ability to attract a highly skilled trades and professional labour pool
- Providing information to the larger defence contractors currently in the BRAED region or those considering working with either DND or other Federal Government Departments (*may not yield any immediate gain due to the current economic downturn*)

- Promote awareness of Defence Industry opportunities.

What are the barriers to the development of this industry or investment in this industry?

- Road transportation routes north and south with access to the US.
- Availability of skilled trades persons and professionals.
- Lack of awareness of Defence Industry opportunities

Potential Opportunities

Only 10% of procurement for CFB/ASU Wainwright comes from within the BRAED region. There is opportunity to establish contracts with the Base and/or to subcontract with larger companies with established Base contracts for provision of food, office supplies, repair and maintenance and construction. It is important to note that business can track requirements of not just CFB Wainwright but for any other part of DND or any other Canadian Federal Ministry. Thus, it is possible to get contracts with DND, Ministry of Justice, RCMP, etc. through MERX. Opportunity may also exist for companies to locate new manufacturing, research, testing and servicing facilities in the BRAED region for CFB/ASU Wainwright

Target Companies

Equipment Manufacturing

Any company working in the aerospace industry in the BRAED region may want to consider partnering with other international companies during bids for other equipment. Public Works and Government Services Canada (*PWGSC's*) website could provide a starting point in this matter. Current projects being pursued but not yet contracted include the Joint Strike Fighter, Joint Support Ship and others.

Unmanned Vehicle Systems

- General Dynamics Canada - <http://www.gdcanada.com/>
 - Provides technology-Based electronic systems, systems integration, and in-service support to defence organizations and public security markets in Canada and abroad.
 - 350 Legget Drive 6th Floor
Ottawa, Ontario Canada K2K 2W7
Phone: +1 (613) 596-7000
Fax: +1 (613) 820-5081
Email: info@gdcanada.com

- General Atomics – <http://www.ga.com/index.php>

 - One of the world's leading resources for high-technology systems development ranging from the nuclear fuel cycle to remotely operated surveillance aircraft, airborne sensors, and advanced electric, electronic, wireless and laser technologies.
 - 3550 General Atomics Court
San Diego, CA 92121-1122
Phone: (858) 455-3000
Fax: (858) 455-3621

- MacDonald Dettwiler – <http://www.mdacorporation.com>

 - In the Surveillance and Intelligence sector the Company provides civilian, defence and commercial customers around the world with end-to-end information solutions to monitor and manage changes and activities on the earth. These solutions are used for regular monitoring, mission support, and emergency response.
 - 13800 Commerce Parkway
Richmond, British Columbia Canada V6V 2J3
Phone: 1 604 278-3411
Fax: 1 604 278-1837
E-mail: info@mdacorporation.com

Weapons Systems and Munitions

- BAE Systems – <http://www.baesystems.com>

 - BAE Systems is the premier global defence, security and aerospace company delivering a full range of products and services for air, land and naval forces, as well as advanced electronics, security, information technology solutions and customer support services. With approximately 105,000 employees worldwide, BAE Systems' sales exceeded £18.5 billion (US \$34.4 billion) in 2008.
 - 6 Carlton Gardens
London
SW1Y 5AD
United Kingdom

- TDA Armements SAS – <http://www.tda-arm.com>

 - Designs, produces, and markets weapon systems offering skills in pyrotechnics, detonics, and electronics. It offers ground and airborne weapons, including rockets and bombs systems, towed and mounted mortar systems, and antitank systems; munitronics, such as munition guidance, artillery and bomb fuses, and missiles lethal mechanisms; and ammunition weapon systems, including rockets, bombs, and mortar projectiles. The company provides land Based weapon systems, air launched weapon systems, missile components, safety and arming units, and local area control systems.
 - Route d'Ardon
La Ferte Saint-Aubin, 45240
France
Phone: 33 2 38 51 63 63
Fax: 33 2 38 51 63 97

- Rheinmetall Canada – <http://www.rheinmetall.ca>
 - Offers a wide array of platforms and components available as stand-alone or networked system solutions. Rheinmetall Defence stands for longstanding experience and pioneering innovation in the world of armored vehicles, weapons and ammunition, air defence and electronics – a commitment to excellence which also extends to its naval and air force applications and public security products.
 - 225, boul. du Séminaire Sud
Saint-Jean-sur-Richelieu, Québec Canada J3B 8E9
Phone: (450) 358-2000
Fax: (450) 358-1744

Anti-terrorism and first-line responders equipment, technology and training

- Cubic Corporation – <http://www.cubic.com/>
 - Supplies realistic live combat training systems for military forces and virtual training systems, advanced laser technology and transportation security systems. Cubic's defence communications business provides search-and-rescue avionics and tactical data links and surveillance receivers for "C4ISR" applications. Cubic's government services businesses provide live, virtual and constructive training services for defence and security agencies, as well as force modernization, battle command training and education, weapons effects modeling, and maritime security services.
 - 9333 Balboa Avenue
San Diego, CA 92123
Phone: 858-277-6780
Fax: 858-505-1523

Getting Connected to the Canadian Defence Industry

Canadian Defence and Security Industry

The Canadian Association of Defence and Security Industries (CADSI) is a not-for-profit national business association that represents the Canadian defence and security industries. Formerly the Canadian Defence Industries Association, CADSI represents 500 member companies selling to the defence and public security markets. The industries employ over 70,000 Canadians and generate \$10 billion in annual revenues, roughly 50% of which comes from international sales. CADSI member companies are of all sizes and offer a wide spectrum of goods and services to its customers, and to business partners in Canada, the United States, and internationally.

CADSI supports its member firms through:

- * Advocacy - Representing the interests of industry to the federal government, opinion leaders and the general public.
- * Business Development - Facilitating access to decision makers in Canada and internationally, researching industry trends, trade missions, trade shows, and a defence and security almanac.

* Networking - Providing monthly networking events for members to develop teaming, subcontracting and customer relationships.

* Member Services - Offering educational seminars, website profiling, access to the most current defence and security intelligence, affinity programs and group insurance.

Associate Membership

- For Canadian non-commercial organizations (such as not-for-profit associations, provincial aerospace and defence associations, Crown Corporations, institutes, etc.) whose purpose is consistent with CADSI's mandate.
- For registered, legal, private sector companies that do not qualify for corporate membership and whose business interests include defence and/or security.
- Associate membership fees are \$387.00 plus GST

Purchasing an Associate Membership gains knowledge of what is happening in the Canadian defence and security industry as well as an opportunity to attend CANSEC, Canada's #1 Defence Trade Show. Canada's largest annual defence and security tradeshow is open exclusively to CADSI members and their customers. This two day event, hosted in Ottawa, targets a wide audience of customers that include federal, provincial and municipal government departments and agencies with interests in defence, security, public safety, risk mitigation, threat response and emergency planning. CANSEC 2009 is scheduled for May 27th and 28th.

| Action Plan Elements for 2009-2014 | Estimated Cost |
|--|------------------|
| MERX Awareness and Training – internal | |
| MERX training for BRAED and Business members | \$1000 |
| Businesses register for MERX | - |
| Local Opportunity Identification and Awareness – internal | |
| Promote opportunities to local BRAED businesses and tour businesses at CFB/ASU Wainwright (reverse tradeshow) | \$ 5,000 |
| Promote BRAED region to businesses currently providing services/goods to Department of National Defence and/or CFB/ASU Wainwright | \$ 5,000 |
| Promotion and Marketing Initiatives – external (<i>development of promotion materials, attend conferences, incoming and outgoing trade missions</i>) | |
| Development of Investment Attraction promotional materials | \$ 5,000 |
| Associate membership with Canadian Association of Defence and Security Industries (weekly newsletter, tradeshow attendance, | \$ 500 |
| Attend national/international conferences in 2009: CANSEC 2009 Ottawa, Ontario, Canada May 27-28, 2009 http://www.defenceandsecurity.ca AUVSI's Unmanned Systems North America 2009 Washington, DC USA August 10-13, 2009 http://symposium.auvsi.org/ DSEi — Defence Systems & Equipment International Exhibition 2009 London, United Kingdom September 8-11, 2009 http://www.dsei.co.uk/ | \$ 15,000 |
| 2 outgoing investment attraction missions to target companies <u>2010-14</u> : - Eastern Canada - United Kingdom and European Union - USA | \$ 20,000 |
| 1 incoming investment attraction missions for identified opportunities: - Unmanned vehicle systems - Weapons and munitions - Anti-terrorism/first-line responders equipment and technology | \$ 5,000 |
| Total budget requirement | |
| | \$ 56,500 |

**APPENDIX A- COMPETITIVE ALTERNATIVES.COM COST MODEL
DETAILED COMPARISON REPORT**

INDUSTRY: PRECISION MANUFACTURING

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OPERATION: Precision Components

(USD\$'000)

| City | Australi | Canada | France | Germany | Italy | Japan | Mexico | Netherla | UK | US |
|-------------------------|----------|----------|---------|---------|---------|---------|-----------|----------|---------|---------|
| Region | Average | Average | Average | Average | Average | Average | Average | Average | Average | Average |
| Country | AU | CA | FR | GE | IT | JP | MX | NL | UK | US |
| Exchange rate per USD\$ | A\$1.140 | C\$1.000 | €0.680 | €0.680 | €0.680 | ¥111.27 | M\$10.870 | €0.680 | £0.500 | \$1.000 |

Initial Investment

| | | | | | | | | | | |
|-------------------------------|---------|---------|---------|---------|---------|----------|---------|----------|----------|---------|
| Land | 1,558 | 1,131 | 1,080 | 1,585 | 1,249 | 2,342 | 680 | 1,915 | 1,684 | 739 |
| Buildings | 1,956 | 2,365 | 1,923 | 2,323 | 1,885 | 3,156 | 1,090 | 2,459 | 3,350 | 1,925 |
| | 3,514 | 3,496 | 3,003 | 3,908 | 3,133 | 5,498 | 1,770 | 4,374 | 5,034 | 2,664 |
| <i>Rank, total investment</i> | 6 | 5 | 3 | 7 | 4 | 10 | 1 | 8 | 9 | 2 |
| Cash | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 | 500 |
| Inventy | 2,400 | 2,400 | 2,400 | 2,400 | 2,400 | 2,400 | 2,400 | 2,400 | 2,400 | 2,400 |
| Fixed assets | 3,150 | 3,150 | 3,150 | 3,150 | 3,150 | 3,150 | 3,150 | 3,150 | 3,150 | 3,150 |
| | \$9,564 | \$9,546 | \$9,053 | \$9,958 | \$9,183 | \$11,548 | \$7,820 | \$10,424 | \$11,084 | \$8,714 |

Initial Financing

| | | | | | | | | | | |
|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Debt | 4,782 | 4,773 | 4,526 | 4,979 | 4,592 | 5,774 | 3,910 | 5,212 | 5,542 | 4,357 |
| Equity | 4,782 | 4,773 | 4,527 | 4,979 | 4,592 | 5,774 | 3,910 | 5,212 | 5,543 | 4,357 |

| | \$9,564 | \$9,546 | \$9,053 | \$9,958 | \$9,183 | \$11,548 | \$7,820 | \$10,424 | \$11,084 | \$8,714 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| 10-Year Average Profit & Loss | | | | | | | | | | |
| | Australi | Canada | France | Germany | Italy | Japan | Mexico | Netherla | UK | US |
| Sales | 10,300 | 10,300 | 10,300 | 10,300 | 10,300 | 10,300 | 10,300 | 10,300 | 10,300 | 10,300 |
| Location-sensitive costs | | | | | | | | | | |
| Salary and wages | 3,536 | 3,678 | 3,035 | 4,629 | 2,960 | 4,267 | 1,597 | 4,061 | 3,613 | 3,391 |
| Statutory plans | 452 | 315 | 1,287 | 753 | 974 | 382 | 180 | 525 | 433 | 379 |
| Other benefits | 708 | 784 | 613 | 906 | 744 | 1,488 | 391 | 1,181 | 1,109 | 946 |
| Total labor | 4,696 | 4,777 | 4,936 | 6,288 | 4,678 | 6,138 | 2,168 | 5,767 | 5,154 | 4,717 |
| Rank, total labor | 3 | 5 | 6 | 10 | 2 | 9 | 1 | 8 | 7 | 4 |
| Facility lease | - | - | - | - | - | - | - | - | - | - |
| Rank, facility lease | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Road freight | 189 | 447 | 284 | 331 | 589 | 174 | 666 | 325 | 278 | 594 |
| Air freight | 28 | 16 | 21 | 21 | 21 | 25 | 21 | 20 | 22 | 16 |
| Sea freight | - | - | - | - | - | - | - | - | - | - |
| Total transportation | 218 | 463 | 304 | 352 | 609 | 199 | 687 | 345 | 300 | 610 |
| Rank, transportation | 2 | 7 | 4 | 6 | 8 | 1 | 10 | 5 | 3 | 9 |
| Electricity | 95 | 79 | 79 | 135 | 219 | 126 | 87 | 118 | 103 | 68 |
| Gas | 23 | 20 | 31 | 37 | 30 | 34 | 12 | 40 | 30 | 18 |
| Telecommunications | 11 | 4 | 11 | 6 | 10 | 17 | 21 | 8 | 5 | 4 |
| Total utilities | 130 | 104 | 121 | 178 | 260 | 177 | 120 | 166 | 138 | 90 |

| | | | | | | | | | | |
|---------------------------------------|----------|--------|--------|---------|-------|-------|--------|----------|-------|-------|
| <i>Rank, electricity</i> | 5 | 2 | 2 | 9 | 10 | 8 | 4 | 7 | 6 | 1 |
| <i>Rank, gas</i> | 4 | 3 | 7 | 9 | 5 | 8 | 1 | 10 | 5 | 2 |
| <i>Rank, telecommunications</i> | 7 | 1 | 7 | 4 | 6 | 9 | 10 | 5 | 3 | 1 |
| <hr/> | | | | | | | | | | |
| <i>Total operating costs</i> | 5,044 | 5,345 | 5,361 | 6,817 | 5,547 | 6,514 | 2,975 | 6,278 | 5,592 | 5,416 |
| <i>Rank, operating costs</i> | 2 | 3 | 4 | 10 | 6 | 9 | 1 | 8 | 7 | 5 |
| | Australi | Canada | France | Germany | Italy | Japan | Mexico | Netherla | UK | US |
| Interest | 36 | 120 | 117 | 363 | 166 | 229 | -632 | 269 | 255 | 118 |
| Depreciation | 524 | 552 | 522 | 549 | 520 | 604 | 467 | 558 | 617 | 522 |
| <hr/> | | | | | | | | | | |
| <i>Total interest, depreciation</i> | 560 | 671 | 640 | 912 | 685 | 833 | -166 | 827 | 872 | 641 |
| Income tax, national | 599 | 184 | 428 | 17 | 362 | 30 | 1,311 | 119 | 240 | 432 |
| Income tax, regional | - | 154 | - | - | 195 | 27 | - | - | - | 36 |
| Income tax, local | - | - | - | 21 | - | 4 | - | - | - | - |
| Capital tax, national | - | - | - | - | - | - | - | - | - | - |
| Capital tax, regional | - | 7 | - | - | - | 17 | - | - | - | 1 |
| Sales tax | - | 15 | - | - | - | - | - | - | - | 29 |
| Property tax | 14 | 113 | 147 | 62 | - | 127 | 4 | 9 | 223 | 77 |
| Gross receipts tax | - | - | 6 | - | - | - | - | - | - | 3 |
| Business tax | 21 | 10 | - | - | 22 | 15 | 17 | 7 | - | - |
| Grants, subsidies | - | - | - | - | - | - | - | -65 | - | -7 |
| <hr/> | | | | | | | | | | |
| <i>Total taxes (net of grants)</i> | 634 | 484 | 580 | 100 | 579 | 221 | 1,332 | 70 | 463 | 572 |
| <hr/> | | | | | | | | | | |
| <i>Total location-sensitive costs</i> | 6,238 | 6,500 | 6,581 | 7,829 | 6,811 | 7,568 | 4,142 | 7,175 | 6,928 | 6,629 |

Location-insensitive costs

| | | | | | | | | | | |
|---|-------------|-------------|-------------|--------------|--------------|--------------|-------------|--------------|--------------|--------------|
| Materials | 2,472 | 2,472 | 2,472 | 2,472 | 2,472 | 2,472 | 2,472 | 2,472 | 2,472 | 2,472 |
| Other operating expenses | 257 | 257 | 257 | 257 | 257 | 257 | 257 | 257 | 257 | 257 |
| <i>Total location-insensitive costs</i> | 2,729 | 2,729 | 2,729 | 2,729 | 2,729 | 2,729 | 2,729 | 2,729 | 2,729 | 2,729 |
| <i>Total costs</i> | 8,967 | 9,229 | 9,310 | 10,558 | 9,540 | 10,297 | 6,871 | 9,904 | 9,657 | 9,358 |
| <i>Net profit after tax</i> | \$1,333 | \$1,072 | \$991 | -\$258 | \$759 | \$4 | \$3,429 | \$396 | \$643 | \$942 |
| <i>% of sales</i> | 12.9% | 10.4% | 9.6% | -2.5% | 7.4% | - | 33.3% | 3.8% | 6.2% | 9.1% |
| Overall rank | 2 | 3 | 4 | 10 | 6 | 9 | 1 | 8 | 7 | 5 |
| Overall index | 95.8 | 98.6 | 99.5 | 112.8 | 101.9 | 110.0 | 73.4 | 105.8 | 103.2 | 100.0 |

Summary Measures

| | Australi | Canada | France | Germany | Italy | Japan | Mexico | Netherla | UK | US |
|---------------------------------|----------|--------|--------|---------|--------|--------|--------|----------|--------|--------|
| Net profit before income tax | 1,932 | 1,410 | 1,419 | -220 | 1,316 | 66 | 4,740 | 450 | 883 | 1,404 |
| Effective income tax rate | 31.0% | 24.0% | 30.2% | - | 42.3% | 94.4% | 27.7% | 12.0% | 27.2% | 32.9% |
| <i>Rank</i> | 7 | 3 | 6 | 1 | 9 | 10 | 5 | 2 | 4 | 8 |
| Property-based taxes per sq.ft. | \$0.46 | \$4.11 | \$4.89 | \$2.08 | \$0.74 | \$4.72 | \$0.13 | \$0.53 | \$7.44 | \$2.57 |
| <i>Rank</i> | 2 | 7 | 9 | 5 | 4 | 8 | 1 | 3 | 10 | 6 |