



# EQUITY INVESTORS INCENTIVE PROGRAM

## INTRODUCTION

The Equity Investors Incentive Program provides new and expanding businesses in all areas of Prince Edward Island with the means to attract private sector investment, thus reducing requirements for conventional term debt and working capital financing. This program also creates a means to increase the return on investment to investors who wish to invest in eligible Prince Edward Island companies.

The program provides a non-repayable incentive to investors to encourage investment in eligible Prince Edward Island based businesses. The incentive is in the form of a direct rebate to investors (individuals or corporations) and is calculated at 20 - 25 percent of the purchase price of the equity investment made in the small business.

The incentive is considered to be a reduction to the cost base of the shares in the small business and not as taxable income to the investor.

## ELIGIBLE APPLICANTS

Eligible applicants to this program are manufacturers, processors and providers of exportable services.

Applicants must be sole proprietorships, partnerships, cooperatives or limited liability companies with well-developed business and marketing plans.

Applicants engaged in retailing and services (to businesses or consumers) are ineligible for assistance.

## ELIGIBLE SECTORS

Assistance will be available to incorporated companies engaged in the following activities:

- food development
- diversified manufacturing
- life sciences
- information technology
- selected tourism projects
- first-of-its-kind exportable services may be considered in other sectors

In order for a project to be eligible for assistance it must provide economic benefit to the province and similar businesses can not be jeopardized as a result of the proposed project.

## ELIGIBLE ACTIVITIES

Approved equity issues may be common, preferred, redeemable, voting or non-voting shares or limited partnership units and must in aggregate represent no more than 49 percent of the voting interest.

Eligible purchasers include any person or corporation that is at arms length to the applicant company as defined under Section 251 of the *Income Tax Act* (Government of Canada).

The assistance provided by the program should:

- reduce debt financing requirements through the provision of additional equity
- provide low-cost financing and ease monthly cash flow burdens
- provide financing for small businesses which traditionally have difficulty with lending institutions in start-up phases
- provide a means of injecting technical and managerial expertise to Prince Edward Island based companies

**Application must be submitted before any financial or legal commitment has been made on the project.**

## LEVELS OF ASSISTANCE

- 20 to 25 percent of approved equity investment based on the net economic benefit to the province.

## OTHER CONDITIONS

Other conditions when evaluating an applicant's request for assistance will include:

- potential for long-term viability
- qualifications and track records of managers
- cost benefit to the province
- employment creation
- level of assistance from other government programs offered or available
- export sales
- import substitution
- environmental impact
- availability of program funds

## PERFORMANCE MONITORING

The Equity Investors Incentive Program requires a five-year period of monitoring. In addition to yearly financial statements, applicants must be prepared to provide information, as requested, on the ongoing activity of the business. During this period of time, equity shares upon which Prince Edward Island Business Development has paid incentives may not be redeemed by the company. Should the company elect to redeem shares, the rebates paid by the Prince Edward Island Business Development will be due and payable by the investee company to Prince Edward Island Business Development.

For each project approved, a letter of offer will be forwarded to the applicant(s) which, when accepted, shall constitute a contract between Prince Edward Island Business Development and the applicant(s).

Should the project fail to comply with the terms of the contract or be discontinued, Prince Edward Island Business Development may at its sole discretion:

- declare the applicant to be in non-performance (default) of the contract
- request the applicant to repay, in full, the incentive received
- take necessary legal action to collect the incentive amount in full with interest

## FOR MORE INFORMATION

Prince Edward Island Business Development specializes in one on one business counselling. Our qualified staff can also provide information regarding most business development programs offered by government agencies across the Island. All inquiries and applications are treated in the strictest of confidence. Application forms and additional program information can be obtained from the Business Development Officer located at your local Access PEI centre, or:

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