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Michael Hoffman  
Actlabs  
41 Bittern St  
Ancaster, ON L9G 4V5

April 18, 2017

Hamilton City Council  
c/o Rose Caterini, City Clerk  
71 Main Street West, City Hall  
Hamilton, ON L8P 4Y5

Dear Ms. Caterini,

We are requesting to pay 50% of the deferred development charges, which is \$454,188.31, when due on June 25, 2017 and defer the remaining \$454,188.31 for a period of 1 year at the city's borrowing rate + 2.25%, to be paid in full Jun 25, 2018, in line with previous approved requests from Terra Enterprises and Carmen's Best Western through city council.

The reason that we need to make this request is that over 90% of Actlabs' revenues are from providing scientific services to the mining and exploration industry, which has seen a tremendous decline since 2011, as evidenced by the attached bulletin from Natural Resources Canada. When Actlabs' began designing our 200,000 sq ft state of the art global headquarters located in the Ancaster industrial park in 2010, the mining industry was growing at a compound annual growth rate of 25% for 5 years straight and our 75,000 sq ft of space within the Ancaster industrial park was no longer sufficient to allow for continued growth. By 2011, significant construction was under way; however, years later, we can see the mining industry had also reached its peak during 2011.

Since 2011, spending within the mining industry has dropped 67%, leading to a price war between our competitors, which has significantly reduced our revenues and margins, and has forced one of our competitors into bankruptcy (<http://www accurassay.com/>). In order to respond to this, we have had a wage freeze in place for 6 years now, and are now losing staff at an accelerated rate/unable to acquire new staff at our current wages. We have also closed many of our sites around the world in an effort to respond to this downturn; however, unfortunately our fixed costs tied to our Ancaster location have actually increased since relocating to our Bittern site (ie. our property taxes have tripled and are slated to increase further with the new assessment, while the building is only at 25% of its planned capacity; our utility costs are up almost 50% despite using more energy efficient technology). This situation was communicated to both the city's economic development and taxation divisions in 2015.

As a result of the loss of capacity from our competitor's recent bankruptcy, there is increased demand for our services now; however, our pricing is still significantly depressed as a result of our multinational competitors continuing to engage in a drawn out price war. As such, cash flows are still very limited, yet there is an

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opportunity for us to start to recover in what is typically a cyclical industry. In an effort to increase our staffing levels/stem the loss of staff, we are planning to increase our starting wages. Then, in an effort to not disengage current staff, also increase wages of all front line staff using all of the proposed deferred \$454,188.31.

We believe the above proposal will have the following benefits:

1. Increase the take home salary of hundreds of staff employed within Ancaster, increasing the net worth/spending power of these Hamiltonians who can then directly inject funds back into the Hamilton community via their spending.
2. While a portion of the development charges will be deferred (with interest), it helps to ensure that Actlabs' can continue to operate as a going concern in this challenging environment and thus continue to contribute property taxes to the city going forward. In the event that Actlabs cannot continue as a going concern, as could potentially be the case without the city's support, we feel the value of the property is very likely to be significantly reduced as the building was designed specifically to be a laboratory serving the mining industry and so could jeopardize the value of the future property tax cash flows for the city, as such a large building could sit vacant for some time.
3. Actlabs has been recognized as a Canadian Innovation Leader by the Federal government. As the Economic Development Division within the City of Hamilton will attest, Actlabs is one of the largest private high tech companies within the greater Hamilton area. As such, the economic development division has used this to help push forward their mandate to grow the tech sector of Hamilton. Actlabs is also a rare example of a start up launched in the Hamilton area that grown to employ hundreds of people.

I hope that our request is duly considered and if there are any questions/comments, I would be happy to address them.

Sincerely,

A handwritten signature in black ink, appearing to read "M Hoffman". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Michael Hoffman, PhD MBA  
VP, Finance & Operations  
Actlabs

Enclosures: Canadian Mineral Exploration\_Natural Resources Canada\_March 2016.pdf

cc: Lloyd Ferguson, Ancaster City Councilor  
cc: Mike Zegarac, General Manager of Finance & Corporate Services  
cc: Joe Spiler, Manager of Capital Budgets & Development  
cc: Lindsay Gillies, Senior Financial Analyst for Capital Budgets & Development

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