

# Guidelines for Eligible and Ineligible Costs for Ultimate Recipients

## 1. Eligible Costs

Eligible Costs incurred and paid by the Project Lead are those, which are necessary to carry out the approved project activities. These costs are generally non-recurring and incremental to the ordinary business activities of the Project Lead. Eligible Costs shall be reasonable, such that the nature and the amounts do not exceed what an ordinary prudent person would conduct in a similar business context and can be directly attributable to the completion of the Approved Project Activities included in the Project Funding Agreement. These costs must be determined in accordance with the Project Lead's cost accounting practices as accepted by CAAIN and the Minister of Innovation Science and Economic Development (ISED) and applied consistently over time. The cost accounting system should clearly establish an audit trail that supports all costs claimed.

## 2. Affiliated Persons Clause

Affiliated Persons are to be understood and treated as defined in the *Income Tax Act*, which includes but is not limited to; two or more entities that have similar ownership personnel; or entities that have a working business relationship.

In the case of Eligible Costs for goods or services incurred and paid with an Affiliated Person, the amount of the costs incurred and paid must:

- i. not exceed their Fair Market Value;
- ii. in the case of a good or service for which there is no Fair Market Value, the amount must not exceed the Fair Market Value of Similar Goods; or
- iii. in the case of a good or service for which there is neither a Fair Market Value nor Similar Goods, the amount must not exceed the sum of the applicable Direct Costs with Indirect Costs (Overhead) at the rate stipulated by this Agreement, plus 5% profit.

*\*Note: Project Leads must self-identify any related parties or Affiliated Persons who will be contracted to provide goods or perform services for completion of Approved Project Activities. For wholly owned subsidiaries of the Project Leads completing Approved Project Activities, its Eligible Supported Costs incurred and paid will be claimed by the Project Lead on their behalf and costs are to be treated as if the wholly owned subsidiary is the Project Lead.*

## 3. Reporting Responsibility

The Project Lead is responsible for providing financial records, costing methods, management estimates and legitimate business causes to support the claimed costs to the satisfaction of CAAIN and ISED.

## 4. Eligible Cost Activities

Eligible Costs will generally include expenditures related to the following activities:

- i. Industrial research, including activities related to the discovery of new knowledge that aim to support the development of new technology-driven products, processes, or services at early-stage technology readiness levels (TRLs); and

- ii. Large-scale technology demonstration, including the advancement and development of new technologies into product-specific applications at mid-to-late-stage technology readiness levels.

Projects should cover a broad range of TRLs to support the development and growth of innovation ecosystems through activities from research to commercialization.

## 5. Eligible Cost Categories

Eligible Cost categories of Approved Project Activities may include the following:

- A. **Direct Labour:** The portion of gross wages or salaries incurred and paid by the Project Lead for eligible activities which can be specifically identified and measured as having been performed for Approved Project Activities and which is so identified and measured consistently by the Ultimate Recipient's cost accounting system. The cost accounting system should clearly indicate the allocation of an employee's hours worked on the Approved Project Activities.
- B. **Subcontractors and Consultants:** meaning the costs of subcontracts or consultants incurred and paid for Network Activities are the costs for work or services performed by an external third party or affiliate (except a wholly owned subsidiary), which can be specifically identified and measured as having been incurred and paid for the Network Activities. The Lead/Ultimate Recipient(s) cannot be a Recipient and a Subcontractor on the same Eligible Project.

The Indirect Cost (Overhead) rate calculation for Project Leads does not apply to bona fide Subcontractors and Consultants.

*\* In the case of Recipients with high Subcontractors and Consultants costs or low Direct Labour costs: Indirect Costs (Overhead) thresholds calculated to a maximum of 5% on eligible Subcontractors and Consultants costs, but no more than 15% of total Eligible Costs may apply. Such thresholds would be calculated for each Recipient and each individual Eligible Project if more than one Eligible Project is selected for a Project Lead.*

- C. **Direct Materials & Supplies:** The cost of materials which are incurred and paid and can be specifically identified and measured as having been processed, manufactured, and used in the performance of the Approved Project Activities, which are measured consistently by the Project Lead's cost accounting system.
  - i. Materials purchased solely for the Approved Project Activities shall be at the net laid down cost to the Project Lead, net of any sale taxes and after any discounts offered by the suppliers.
  - ii. Materials issued from the Project Lead's general stocks shall be measured in accordance with the material pricing method consistently used by the Project Lead.

Direct Materials may include, but are not limited to, items such as circuit boards, cables and metals, or any raw material that is consumed during Approved Project Activities.

D. **Equipment:** The capital cost of Equipment, which is incurred and paid and can be specifically identified as having been purchased for Approved Project Activities and measured consistently by the Project Lead's costing system. Significant Equipment required to complete the Approved Project Activities should be detailed in the Project Funding Agreement. Common scenarios of equipment-related costs are:

- i. If the Project Lead builds the equipment themselves, the costs are allocated to the appropriate cost categories (Direct Material, Direct Labour, etc.);
- ii. If the equipment is built by a third party, the costs are allocated to the Equipment category if readily identifiable, otherwise the equipment could be reported in the Subcontractors category; and
- iii. If the Project Lead purchases equipment outright, the costs are allocated to the Equipment category.

Capital equipment acquired under the Agreement will be subject to CAAIN and ISED approval for disposal and repayment may be triggered if sold.

Equipment costs may include but are not limited to, the purchase of equipment necessary for the Approved Project Activities, costs to alter or modernize existing equipment, costs to bring equipment into working order, and shipping costs.

E. **IP & Other Direct Costs:** Eligible direct costs not falling within the categories of direct cost mentioned above, but which are incurred and paid, and can be specifically identified and measured as having been incurred and paid by the Project Lead for Approved Project Activities and which are so identified and measured consistently by the Project Lead's costing system.

**Travel and Outreach Costs:** Eligible direct costs incurred and paid by the Project Lead that are directly related to Approved Project Activities. Travel expenses must be appropriate, and reasonable. Travel costs may be claimed, to the maximum allowance, as per the conditions in the national joint council directive or treasury board policies.

The Project Lead's travel policy may be required for review by CAAIN and ISED during the claim process.

## 6. Indirect Costs (Overhead)

Indirect Costs (Overhead) are those which, though necessarily having been incurred and paid by the Project Lead for the general conduct of the business, cannot be identified and measured as directly applicable to the carrying out of the Approved Project Activities.

Indirect Costs (Overhead) may include, but are not limited to:

- (a) Indirect materials and supplies including but not limited to, supplies of low-value, high-usage and consumable items, such as paintbrushes and safety supplies, which meet the definition of Direct Material costs but for which it is commercially unreasonable, in the context of the activities of the Approved Project, to account for their costs in the manner prescribed for Direct Costs. Costs such as stationery, office supplies, postage and other necessary administration and management expenses, small tools, such as ladders, drills, paint sprayer, and general inventory build-up;
- (b) Indirect labour, Project Administration Fees, and administrative support, including but not limited to the remuneration of executive and corporate officers, general office wages and salaries, clerical expenses, HR, Accounting/Finance staff, overtime premiums, bonuses, all types of benefits paid by employers (e.g., CPP, EI, fringe benefits, medical and dental benefits, pension benefits and other taxable benefits).

Administration costs spent on the following activities are considered indirect costs:

- i. Review and approval of documents,
- ii. Oversight,
- iii. Quality review,
- iv. Strategic guidance,
- v. Participation in all-staff meetings,
- vi. Professional development,
- vii. Performance reviews and any costs associated with interactions with government including application,
- viii. Claims,
- ix. Amendment, and
- x. Audit and reporting communications.

Notwithstanding the above, Indirect Costs (Overhead) will not include those Direct Labour costs described in Section 5.A.

- (c) Indirect building costs including, but not limited to, snowplowing costs, public utilities expenses of a general nature including but not limited to, power, HVAC, lighting, and the operation and maintenance of general assets and facilities;
- (d) Expenses such as property taxes, equipment rental and building (not covered as part of direct costs) and depreciation costs;
- (e) Indirect equipment costs including, but not limited to, maintenance of assets, office equipment, office furniture, etc.; and

- (f) Other indirect costs including, but not limited to, daily commutes, unreasonable modes of transportation, general software and licenses, and travel insurance.

Indirect Costs (Overhead) thresholds of 55% on eligible direct labour but no more than 15% of total Eligible Costs will apply for each Ultimate Recipient (and for each individual Eligible Project if more than one Eligible Project is selected for an Ultimate Recipient).

*\* In the case of Recipients with high Subcontractors and Consultants costs or low Direct Labour costs: Indirect Costs (Overhead) thresholds calculated to a maximum of 5% on eligible Subcontractors and Consultants costs, but no more than 15% of total Eligible Costs may apply. Such thresholds would be calculated for each Project Lead and each individual Eligible Project if more than one Eligible Project is selected for a Project Lead).*

## 7. Ineligible Costs

Ineligible Costs incurred and paid by the Project Lead are not eligible for reimbursement by CAIN, regardless of whether they are reasonably and properly incurred and paid in the carrying out of the Approved Project Activities.

Ineligible Costs include:

- (a) Any form of interest paid or payable on invested capital, bonds, debentures, bank or other loans together with related bond discounts and finance charges; the interest portion of the lease cost that is attributable to cost of borrowing regardless of types of lease;
- (b) Legal, accounting and consulting fees in connection with financial reorganization (including the set-up of new not-for-profit organizations), security issues, capital stock issues, obtaining of licenses, establishment, and management of agreements with Ultimate Recipients and prosecution of claims against CAIN and the Minister. Such legal costs associated with developing the agreement template and in connection with obtaining patents or other statutory protection for Approved Project intellectual property are considered eligible;
- (c) Losses on investments, bad debts and expenses for the collection charges;
- (d) Losses on other projects or contracts;
- (e) Federal and provincial income taxes, goods and services taxes, value added taxes, excess profit taxes or surtaxes and/or special expenses in connection with those taxes, except duty taxes paid for importing is Eligible Cost.
- (f) Provisions for contingencies;
- (g) Premiums for life insurance on the lives of officers and/or directors where proceeds accrue to the Recipient;
- (h) Amortization of unrealized appreciation of assets;
- (i) Depreciation of assets paid for by the Minister;
- (j) Fines and penalties;
- (k) Expenses and depreciation of excess facilities;
- (l) Unreasonable compensation for officers and employees;
- (m) Product development or improvement expenses not associated with the work being performed under the Approved Project Activities;
- (n) Advertising, except reasonable advertising of an industrial or institutional character placed in trade, technical or professional journals for the dissemination of information for the

industry or institution;

- (o) Entertainment expenses (including but not limited to, catering, alcohol, non-travel expenses);
- (p) Donations;
- (q) Dues and other memberships other than regular trade and professional associations;
- (r) extraordinary or abnormal fees for professional advice in regard to technical, administrative or accounting matters, unless approval from CAAIN and ISED is obtained;
- (s) Selling and marketing expenses associated with the products or services or both being developed under the Project Funding Agreement;
- (t) In-kind costs; and
- (u) Recruiting fees