



Co-Investment Guidelines

HORIZON AI

For Projects funded by the Commercialization Pillar of the Pan-Canadian AI Strategy

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Contents

Co-Investment	3
Eligible Organizations.....	3
Eligibility Principles.....	4
Eligible Project Costs	5
Ineligible Project Costs.....	7
Other Government Funding.....	8
Co-Investment Conditions	8

Disclaimer

This document provides information and guidance about the types of project expenses that are eligible for DIGITAL’s co-investment in Horizon AI projects funded by the Commercialization Pillar of the Pan-Canadian AI Strategy (PCAIS). This guidance does not bind us or Innovation, Science and Economic Development Canada (ISED) and is subject to change at any time. Actual co-investment determinations will be made by DIGITAL when a project claim is adjudicated. Additional information about the process and required evidence to claim eligible project costs can be found in the Resources section of our Community Portal.

Co-Investment

The term “co-investment” refers to the concept that the consortium partners, including DIGITAL, are sharing in the total investment required to fund the collective costs for a specific project.

Financial commitments including costs (uses of funds) and investment (sources of funds) of each consortium partner are outlined in the project budget that forms part of the Full Project Proposal (FPP) and subsequent Master Project Agreement (MPA). Revisions to estimated project costs and investment are approved by all consortium partners as part of their regular project reporting.

- The funds available from DIGITAL for co-investment in Horizon AI projects are limited and DIGITAL’s co-investment is subject to availability of funds from the Pan-Canadian AI Strategy (PCAIS).
- “Member” refers to an organization that has signed a Membership Agreement with DIGITAL. A Member must be a Canadian company or multi-national corporation that is legally registered to do business in Canada and has substantial Canadian business operations.
 - Project Fees are deducted from DIGITAL’s co-investment payments. Project Fees are described in Article 5.3 of the [Membership Agreement](#). Current membership fees and other information can be found [here](#).

Eligible Organizations

All types of organizations, including organizations located outside of Canada, are encouraged to participate in projects.

- DIGITAL provides co-investment directly to Member organizations¹ (“**Eligible Members**”) that are signatories to a Master Project Agreement (MPA) for an approved Horizon AI project and are:
 - for-profit;
 - not-for-profit organizations that fund research and development and whose funding is received primarily from private-sector organizations; or
 - non-federal Crown corporations whose funding is derived from commercial activities.

¹ DIGITAL will confirm eligibility with applicants as they develop their project proposals and before they sign DIGITAL’s Membership Agreement.

- **Community Organizations** may become Eligible Members and receive direct co-investment from DIGITAL when they are signatories to an MPA for a **Community Project**.
 - Community Organizations are organizations or establishments aimed at making desired improvements to a community's social health, well-being and overall functioning. Examples include not-for-profit organizations, hospitals, schools, municipalities, Indigenous groups, and rural and northern communities.
 - **Community Projects** must meet all three of the following conditions:
 - i. promote the adoption of artificial intelligence (AI) solutions by community institutions (excluding for-profit organizations);
 - ii. do not aim to generate profit for for-profit organizations; and
 - iii. include at least one not-for-profit organization.
- Not-for-profit organizations, post-secondary or research institutions may become Eligible Members and receive PCAIS funds directly from DIGITAL as long as the MPA covering the applicable Eligible Project has an approved budget that meets the Industry Matching requirements and that Eligible Costs incurred are consistent with the Project Plan.
- International organizations (offshore companies and research organizations without a registered business presence in Canada) may also participate in PCAIS funded projects, but any project activity undertaken by these organizations are not eligible for DIGITAL co-investment, unless otherwise pre-approved as a foreign cost for an Eligible Member.

Eligibility Principles

Eligible costs must be **incremental, reasonable and directly relate** solely to the execution of project activities performed with the aim of achieving outputs and deliverables during the project term.

DIGITAL's co-investment is paid to Eligible Members against their actual Eligible Project Costs (outlined below) when a claim is approved. Terms and conditions for co-investment payment are outlined in Schedule A of the MPA.

All project teams are required to track project expenses, substantiate them with evidence, and regularly report on their actual and forecasted project costs. Project expenses are subject to audit by DIGITAL and/or the Government of Canada.

- Any project-related expenses incurred prior to DIGITAL's selection and approval of a project proposal, and legal costs directly related to contracting for a selected project are not eligible.
- All eligible project expenses must be recorded net of all taxes. This includes but is not limited to GST, HST, PST, hotel taxes, airport taxes, tourism taxes and all foreign taxes. Taxes are not eligible costs.
- Overheads or project costs incurred in respect of the routine administration and operation of an organization, such as rent on existing facilities, utilities, etc. are not eligible. For clarity, incremental insurance costs for the purposes of Eligible Members meeting their obligations under the signed MPA are eligible.

Project teams can begin work and track their project costs from the date DIGITAL approves the project for co-investment (found in the Notice of Decision) if those costs were included in the approved budget for the proposed project. **DIGITAL will only provide co-investment payments to an Eligible Member for any Eligible Project Costs after a Master Project Agreement has been signed by all parties.** For clarity, DIGITAL will not provide any co-investment in a project if a MPA is not successfully executed.

Eligible Project Costs

- a) A portion of base wages, salaries or contracts incurred that can be specifically identified and measured as having been performed on project deliverables.
 - Time sheets or evidence of time tracking will be required to support direct labour costs charged to the project. Payroll registers may be requested to substantiate costs.
 - Mandatory Employment Related Costs (MERCs), which include Employment Insurance premiums, Employee Health Tax, Canada or Québec Pension Plan contributions, Vacation Pay, and Workers' Compensation premiums or equivalent liability insurance (if applicable).
 - Service providers, consultants and other subcontractors are expected to offer reasonable and discounted rates for the project. Total subcontractor costs for any Eligible Member cannot exceed 35% of their total eligible project costs.
 - **All work must be performed in Canada**, unless otherwise pre-approved as a foreign cost (see item k) below.
- b) Equipment costs including purchase, rental, operation and maintenance.

- c) Materials and supplies as they used or consumed on the project (not when materials are purchased).
- d) User fees.
- e) Incremental room or facility rentals in respect of the project.
- f) Incremental costs to support conferences and related telecommunication expenses **exclusively** for the purposes of the project.
- g) Travel costs, including meal and accommodation costs in accordance with the [National Joint Council Travel Directive](#) that are incurred **exclusively** for the purposes of the project.
- h) Dissemination costs (publication and other activities).
- i) Incremental insurance costs required to comply with the MPA insurance obligations.
- j) Capital expenditures that are linked to the objectives of the project, vital for the success of research, development, demonstration, or commercialization of the project, and not otherwise available as a shared resource. Capital expenditures **over \$1 million must be pre-approved by DIGITAL before purchase** and will also require pre-approval from ISED if more than \$1 million.
- k) Foreign costs: on an **exceptional basis**, DIGITAL may pre-authorize expenditures to be incurred outside of Canada if they are necessary for the success of the project and cannot otherwise be undertaken in Canada. To be eligible, **written pre-approval from DIGITAL and ISED is required in advance** of any spending to determine eligibility of any project costs to be incurred outside of Canada.
- l) Costs relating to the protection of Foreground Intellectual Property (IP) arising out of a project are eligible (e.g., registration, patent drafting, filing, prosecution costs, patent office fees, prior art searching). To be eligible, the Foreground IP is to be funded by DIGITAL and with DIGITAL's **written pre-approval is required in advance**. Only SMEs² who are Eligible Members can claim Foreground IP protection costs, subject to a maximum of \$75,000 per SME per project unless otherwise pre-approved by DIGITAL.
- m) Reasonable legal, accounting and consulting fees related to executing commercial agreements between project participants or other commercial partners, and the

² ISED uses the term 'SME' to refer to businesses with fewer than 500 employees globally.

development of standard license agreement templates for commercial readiness. To be eligible, DIGITAL's **written pre-approval is required in advance** of any spending. Only SMEs who are Eligible Members can claim these commercial agreement costs, subject to a maximum of \$20,000 per SME per project unless otherwise pre-approved by us.

- n) Other direct costs which can be specifically identified and measured as incurred in the performance of the project (e.g. market studies).

Ineligible Project Costs

The following outlines project costs that are not eligible DIGITAL co-investment:

- a) Retroactive costs (i.e., any costs incurred prior to the date of DIGITAL's approval of the proposed project which is found in the *Notice of Decision*).
- b) Costs not directly related to the project activities and work to achieve the deliverables and objectives of the project.
- c) Discretionary employee benefits (in excess of statutory benefits) including but not limited to dental, extended health, disability and life insurance premiums, pension and retirement contributions, and bonuses.
- d) Severance or separation packages for employees or contractors.
- e) Taxes, fines, penalties, cancellation fees or contingencies.
- f) Costs which are eligible for a rebate from federal, provincial, territorial or municipal government sources.
- g) Expenses relating to the construction or purchase of a building or land.
- h) Depreciation of assets funded through DIGITAL's co-investment.
- i) Amortization of unrealized appreciation of assets.
- j) Legal, accounting and consulting fees in connection with litigation or financial reorganization or extraordinary or abnormal fees for professional advice.
 - For clarity: legal, accounting and consulting fees related to our application and evaluation process and completing the MPA are not eligible.

- k) Non-incremental costs including overhead; depreciation or amortization; excess facilities; vacant or unused space; compensation or expenses for Board members; and other costs related to the routine administration and operation of the organization.
- l) Losses on investments, other projects, contracts, bad debts or expenses for the collection charges.
- m) Honoraria, gifts, donations, entertainment expenses and alcoholic beverages.
- n) Grants, scholarships, bursaries and all other disbursements of funds for which the costs cannot be accounted.
- o) Lobbyist fees or lobbying costs.
- p) Dues and other memberships other than regular trade and professional associations.

Other Government Funding

Other government funding that is expected or received by an Eligible Member for eligible project expenses (except for Scientific & Experimental Development credits) must be disclosed to DIGITAL and included in the project budget, financial reporting and/or related claim submissions. DIGITAL reserves the right to adjust its co-investment rate, the amount eligible for co-investment and/or maximum co-investment funds from DIGITAL to meet ISED's industry investment matching requirements.

Co-Investment Conditions

The conditions for receiving co-investment from DIGITAL are:

- a) **A signed Master Project Agreement (MPA)** between the project partners, including DIGITAL.
- b) **An approved project budget and/or forecast** that outlines all estimated project costs by participating organizations and all funding sources for the project.
- c) Confirmation and satisfaction from DIGITAL of each participant's ability to fund their commitments to the project. DIGITAL has the right to undertake a **financial assessment and due diligence** of any participating organization at any time to make

sure they can meet their stated project commitments.

- d) **Certification** by a senior executive with signing authority from each Eligible Member that confirms they understand the eligibility of project costs and that the project budget is reasonable, the costs are directly related to achieving the project outcomes and are incremental to the normal operation of their organization.
- e) **Membership in good standing.** An organization is considered in good standing if they remain current on payments due to DIGITAL (such as Member Fees) and comply with the Charter of Values and their MPA(s) obligations, including timely project reporting and claim submission requirements.

DIGITAL reserves the right to withdraw commitments to co-invest in any selected project if it is determined the project no longer meets the requirements of the Horizon AI program, or if there is an unapproved or substantial change from the project proposal.