

Schedule 2 - Project Costing Memorandum

Eligible cost activities and cost categories are outlined below, along with the ineligible costs, affiliated persons clause, and the cost matching requirements. A summary of eligible cost limits is as follows:

Cost category	Cap
Equipment and infrastructure for research, development, commercialization, and student/researcher training	20% of total funding
Indirect costs (overhead) – more details below	15% of total Eligible Costs
All costs incurred outside of Canada	10% of total Funded Eligible Costs

1. Eligible Costs

Eligible Costs incurred and paid by the Recipients are those which are necessary to carry out the Network Activities. These costs are generally non-recurring and incremental to the ordinary business activities of the Recipients. 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 Network Activities. These costs must be determined in accordance with the Recipients cost accounting practices and applied consistently over time. The cost accounting system should clearly establish an audit trail that supports all costs claimed.

A. Eligible cost activities

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

- i. **Collaborative cyber security technology research and development, such as:**
 - conceptual design, proof-of-concept validation, prototype development, creation of intellectual property, technology/product testing, knowledge mobilization activities; and,
 - development of new products, services and/or processes.
- ii. **Commercialization of innovative cyber security products and services, such as:**
 - activities related to the exploitation and retention of Eligible Project Intellectual Property; and,
 - business development services for firms to facilitate access to new customers and expand markets, which may include market studies and advisory services, in addition to other business services (e.g., linking start-ups with strategic partners, “pitch days”, marketing activities, IP strategy development, etc.).
- iii. **Development of innovative national approaches to address skills and labour gaps in Canada and to enable Canadian companies to address cyber security challenges, such as:**
 - identifying and communicating industry-oriented skills needs (e.g., assessment of industry’s current or anticipated workforce needs, building awareness of industry demand for skilled talent across stakeholder groups, environmental scans, workshops;
 - training modules (including upskilling and reskilling solutions);

- development and promotion of education pathways for defined studies in cyber security; curriculum development, and support for teaching capacity to deliver the curriculum;
- coaching/mentoring; and,
- co-op and other types of Work-Integrated-Learning (WIL) opportunities (e.g., apprenticeships, internships, practicums, etc.) and solutions to help businesses onboard students into occupations.

B. Eligible cost categories

In performing the Network Activities, Eligible Cost categories may include the following:

- i. **Direct labour:** meaning the portion of gross wages or salaries incurred and paid by the Recipients for eligible activities which can be specifically identified and measured as having been performed for the network and which is so identified and measured consistently by the Recipients' cost accounting system. The cost accounting system should clearly indicate the allocation of an employee's hours worked on the Network Activities.
- ii. **Subcontractors and consultants:** meaning the costs of subcontracts or consultants for work or services performed by an external third party or Affiliated Person (except a wholly-owned subsidiary), which can be specifically identified and measured as having been incurred and paid for the Network Activities. The Recipients cannot be a recipient and a subcontractor on the same eligible project.
The indirect cost (overhead) rate calculation for the Recipients does not apply to bona fide subcontractors and consultants.
** In the case of 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.*
- iii. **Equipment:** meaning the capital cost of equipment, which are incurred and paid and can be specifically identified as having been purchased for Network Activities and measured consistently by the Recipient costing system. Up to 20% of funds may be used for equipment and infrastructure for research, development, commercialization, and student/researcher training.
Capital equipment acquired under the Agreement may be subject to the Minister's approval for disposal.
Equipment costs include but are not limited to, the purchase and lease of equipment necessary for the Network Activities, costs to alter or modernize the equipment, costs to get the equipment into working order, and shipping costs.
- iv. **Direct costs:** meaning those Eligible Costs which can be specifically identified and measured as having been incurred and paid by the Recipients' for Network Activities and which are so identified and measured consistently by the Recipients' costing system.
- v. **Travel and outreach costs:** meaning those travel Eligible Costs incurred and paid by the Recipients that are directly related to the Network Activities. However, travel costs shall not include expenses for regular daily commutes. Travel expenses shall be appropriate, economical, and reasonable that are available to most of the employees of the

Recipient. Travel costs can be claimed, to the maximum allowance, as per the conditions in the [National Joint Council \(NJC\) directive](#) or Treasury Board Secretariat policies.

A copy of the Recipients' travel policy may be required for review by the Minister during the claim process.

- vi. **Costs incurred outside of Canada** cannot represent more than 10% of submitted total Funded Eligible Costs.
- vii. **Indirect costs (also called overhead)**, are those costs which, though necessarily having been incurred and paid by the Recipients for the conduct of the business in general, and cannot be identified and measured as directly applicable to the carrying out of Network Activities.

Indirect costs (overhead) include:

- a) Indirect materials and supplies including but not limited to, supplies of low-value, high-usage and consumable items which meet the definition of direct costs but for which it is commercially unreasonable, in the context of the activities of the network, 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.
- b) Indirect labour and overtime premium, all types of benefits paid by employer including but not limited to: the Canadian Pension Plan (CPP), Employment Insurance (EI), fringe benefits, medical benefits, dental benefits, pension benefits and other taxable benefits, the remuneration of executive and corporate officers (including bonuses and incentives), general office wages and salaries, and clerical expenses related to the administration and management of the network; (HR, Accounting/Finance staff).
- c) Administration costs spent on the following activities is considered an indirect cost:
 - i. review and approval of documents;
 - ii. oversight;
 - iii. quality review;
 - iv. strategic guidance;
 - v. participation in all-staff meetings;
 - vi. professional development (excludes professional certification);
 - vii. performance reviews; and,
 - viii. any costs associated with interactions with the Government of Canada, including:
 - 1. application;
 - 2. submission;
 - 3. claims;
 - 4. amendment;
 - 5. audit; and,
 - 6. reporting and communications.
- d) Indirect equipment costs including, but not limited to, maintenance cost of assets, office equipment, office furniture, etc.; and,
- e) other indirect costs including, but not limited to, daily commutes, unreasonable modes of transportation, general software and licenses, and travel insurance.

Notwithstanding the above, Indirect Costs (overhead) will not include those Direct labour costs described in Section B. i..

The maximum overhead amount is 55% of total eligible direct labour and cannot exceed 15% of total Eligible Costs. This threshold will apply for the Recipients (and for each Eligible Project if more than one Eligible Project is selected for the Recipients).

** In the case of 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 Eligible Project if more than one Eligible Project is selected for an Ultimate Recipient.*

2. Ineligible Costs

Certain costs incurred and paid by the Recipients are not eligible for reimbursement (“ineligible costs”), regardless of whether they are reasonably and properly incurred and paid in the carrying out of the Network Activities.

Ineligible Costs include:

- a) direct support for professional certification;
- b) 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;
- c) 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, IP litigation costs, establishment and management of agreements with ultimate recipients and prosecution of claims against the Minister. Such legal costs associated with developing the agreement template and in connection with obtaining patents or other statutory protection for network intellectual property are considered eligible;
- d) losses on investments, bad debts and expenses for the collection charges;
- e) losses on other projects or contracts;
- f) 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.
- g) provisions for contingencies;
- h) premiums for life insurance on the lives of officers and/or directors where proceeds accrue to the recipient(s);
- i) depreciation of assets;
- 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 network;
- 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) selling expenses associated with the products or services or both being developed under the contribution agreement; and,
- s) recruiting fees.

3. 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 the Agreement, plus 5% profit.

**Note: It is important for the Recipients, from the outset, to self-identify any related parties or Affiliated Persons who will be contracted to provide goods or perform services for completion of Network Activities. For wholly owned subsidiaries of the Recipients completing Network Activities, its Eligible Costs incurred and paid will be claimed by the Recipient on their behalf and costs are to be treated as if the wholly owned subsidiary is the Recipient as applicable.*

4. Cost Matching Contribution Requirement

Cost-Matching Contributions shall be from non-federal government organizations. The Cost-Matching Contribution will be applied towards Eligible Supported Costs. The cost-matching limits associated with in-kind contributions are up to 50 percent for Government Fiscal Years 1 and 2 and 25 percent for Government Fiscal Years 3 and 4.