



ADVANCED MANUFACTURING

Next Generation Manufacturing Canada (NGen) is supporting the Government of Canada's Pan-Canadian Artificial Intelligence Strategy (PCAIS). In so doing we are launching the AI For Manufacturing (AI4M) project stream.

With the advances in computing power, storage, communication technology, data analytic tools, and the knowledge base, AI solutions have become financially attractive solutions for many manufacturing processing challenges. At the same time, manufacturers are moving towards reshoring production and facing increasing customer expectations for product cost, quality, flexibility, and transparency in production. AI tools and models have the capability to transform industries by addressing these problems in many ways. They also offer manufacturers opportunities to develop new sources of revenue from data-driven analytics services.

NGen is looking to invest in projects that:

- Are focused on the commercialization of AI solutions, are business-led and collaborative. The projects should promote the introduction, development, and scale-up of solutions involving Artificial Intelligence as well as the activities required by manufacturers for successful implementation.
- Aim to enhance the efficiency, agility, and competitiveness of Canadian manufacturers, thus enabling the development of new commercial opportunities for AI solution providers and manufacturers alike.

Use this guide in conjunction with the Financial Workbook (FWB).

GUIDANCE

This finance guide supports the AI4M project guide and will identify those expenses that are eligible for funding through the program.

Project participants will be required to prepare a financial plan for their projects by completing a Financial Workbook (FWB) section in the NGen Portal. The FWB will be available to complete in the NGen Portal once the project passes the intake and screening stages. To access them:

- Log into the NGen Portal;
- Select “Project” menu item;
- Select your project;
- Select “Financials”;
- Under “Project Finance Workbooks” select “New” to begin filling in the cost categories.

AI4M projects will be reimbursed at 40% of eligible project expenses incurred by industry partners.

No individual project participant (either in isolation or through transitive ownership) will be able to receive more than 80% of the reimbursed funds.

Projects may receive complementary funding from other government agencies. PCAIS funds cannot be used to reimburse costs already fully covered by funding from other government sources. The total amount of government funding cannot exceed 100% of eligible project costs.

Eligible project costs must be reasonable, and directly relate to project execution and achievement of the project objectives. Eligible costs excluding labour must be new to the business and incurred post award.

If in doubt about the eligibility of a cost, please contact NGen in advance for clarification.

Only costs that are incurred and paid for in cash are eligible for reimbursement.

In-kind costs are non-cash paid costs in the form of goods and services, which are **not** eligible for reimbursement.

All amounts submitted for reimbursement must be net of any applicable refundable HST/GST/PST/QST/VAT.

WHO IS ELIGIBLE FOR FUNDING?

Recipients of NGen funding must be either:

- for-profit organizations, or
- not-for-profit organizations that facilitate and fund research and development, and whose funding is received primarily from private-sector organizations.

Ineligible organizations include:

- other not-for-profit organizations
- post-secondary institutions
- federal Crown corporations
- government departments or agencies
- international organizations

FINANCIAL DUE DILIGENCE (FDD)

A financial assessment of each participating member is required to ensure they can support their commitment to the project for the entire duration of the project. Each member company of the project team must provide the documentation required (as detailed below) in order to move into project assessment. Each member company of the project team must successfully pass FDD in order to complete contracting. To this end and predicated on the value of the Total Project Costs. NGen will review:

- Cashflow forecast and / or description of how the project and the business will be funded
- Copy of last 2 years financial statements (Income Statement, Balance Sheet & Cash Flow), or link to where this is available (interim statements may be acceptable where audited statements are unavailable). Most recent statements must be less than six months old.
- If financial statements are not available, state the reason why (other forms of financial assurance may be requested).
- Other Registered Business Information, including a credit check.

Factors from the financial statements which will be evaluated include but are not limited to:

- Profitability (Net profit margin) which shows the company's ability to generate earnings after taxes
- Liquidity (Current Ratio = Current Assets / Current Liabilities). The higher the ratio, the better, as an indicator of a company's liquidity. A current ratio < 1 indicates high risk
- Leverage/Indebtedness (Debt ratio = Total Liabilities / Total Assets). Ideally, a ratio of 0.5 or less is preferred.
- Cashflow (from the Statement of Cashflow); focus on positive operating cashflow from income.

Companies must demonstrate that they have the cashflow, or a firm path to the cashflow to support their own operations in addition to funding the needs of the project through the entire project duration.

In the event the supporting financial information provided by the applicants is insufficient to demonstrate the ability to complete the planned project as proposed, NGen Canada will undertake one of the following actions:

- Request additional information or actions from the participating member
- Reject the proposed program on the grounds that the company(ies) do not appear to have the ability to fund the proposed project to completion
- Approve the project for a reduced amount of NGen funding

If in doubt of your ability to pass FDD or if there are any other questions, please reach out to ProjectFinance1@ngen.ca.

COSTS THAT ARE ELIGIBLE FOR NGEN FUNDING

Projects will incur two categories of costs:

1. Eligible Funded Costs are project expenses that are eligible for reimbursement from NGen AI4M funding.
2. Eligible Industry Matching Costs are project expenses listed as not eligible for reimbursement under the NGen AI4M program but qualify for the Industry Matching requirement.

Both Eligible Funded and Eligible Industry Matching Costs must be incurred in Canada.

ELIGIBLE FUNDED COSTS:

SALARIES & WAGES

Eligible costs are those incurred as the portion of gross wages or salaries for personnel who are based in Canada and working directly on the project.

This includes the following benefits only where specified by federal or provincial regulations:

- CPP, EI, EHT, WSIB, Vacation Pay, Statutory Holiday Pay and Sick Pay.
- For avoidance of doubt, on Quebec payrolls RRQ, AE, FSS, RQAP, CNESST, and EQF (in place of direct training hours) will be eligible.
- You must provide support for your costs incurred.

Overtime premiums may be reimbursed proportionally based on the ratio of an employee's project-related time to total time during the pay period, relative to the total overtime premium incurred in that period.

All salaries & wages are considered paid in cash and are not in-kind costs. Evidence of weekly time sheets referencing eligible project activities will be required to support direct labour costs charged to the project. Payroll registers are required to substantiate costs.

The costs of routine administration and operations are ineligible. Labor costs relating to production, selling, marketing, or advertising are also ineligible.

Examples of the distinction:

- That portion of salary costs of staff that can be shown to be in direct support of carrying out the Project (i.e. project managers, project accountants) can be considered Eligible Funded Project Costs.
- Senior leadership from participating organizations who provide oversight – **Ineligible**
- A general concept of reasonableness shall apply to salaries claimed. Per hour labour costs should be commensurate with the project activities being performed.

ELIGIBLE FUNDED COSTS CONTINUED:

SUB-CONTRACT & CONSULTANCY FEES

Costs are eligible for any work essential to the success of the project and where the expertise does not exist among the partners.

These costs must be accounted for at Fair Market Value and must be reasonable and in line with industry norms and practices.

The total amount of sub-contracted or consulting costs cannot exceed 40% of the value of total project costs, and the work must be performed in Canada¹.

A project partner cannot also be a sub-contractor or consultant.

FOREIGN COSTS

NGen AI4M funding is intended to support initiatives incurring inside Canada. Costs incurred outside Canada may be eligible, only on an exceptional basis, with advance approval by the Government of Canada. Please discuss with your NGen representative during the project development phase to pursue pre-approval.

Advance approval is not required for:

- equipment, materials, or supplies purchased from suppliers outside of Canada and shipped to Canada.
- costs related to obtaining IP rights in foreign countries subject to the patent cost rules outlined in the prior section.

1. See exceptions noted in section on Foreign Costs below

ELIGIBLE FUNDED COSTS CONTINUED:

CAPITAL, NON-CAPITAL EQUIPMENT & FACILITIES

NGen AI4M funding covers the purchase of new equipment, rental, direct operation, and maintenance costs.

To be eligible for reimbursement under the NGen AI4M program, equipment expenditures must be:

- Linked to the objectives of the project
- Vital for the success of research & development or demonstration of projects
- Not otherwise available as a shared resource

Up to 100% of the acquisition cost of new equipment (Capital & Non-Capital) may be claimed and cannot exceed 45% of the value of total project costs.

Note: NGen cannot reimburse infrastructure costs. Any costs (equipment or subcontracted) incurred to modify a facility or property even if related to a project activity are ineligible for reimbursement. Examples of ineligible expenses are as follows:

- Modifications to facility: flooring; walls; HVAC; electrical (including transformers or electrical panels); or fire suppression infrastructure.
- Any clean room installations which are not capable of being moved from the property to another location.

As a general rule, if the client cannot move the equipment to a new location, it would be considered infrastructure and not reimbursable.

1. See exceptions noted in section on Foreign Costs below

ELIGIBLE FUNDED COSTS CONTINUED:

Existing Equipment

The use of existing equipment is **not** reimbursable. Only direct costs incurred in the operation of the equipment may be eligible for reimbursement.

Examples of eligible direct costs include:

- Labour costs to run the equipment
- Materials consumed by the equipment
- Separately metered utility costs

Direct costs claimed must be additional and cannot be an allocation of overhead costs.

Documentation must be provided to substantiate direct costs incurred in the use of existing equipment.

MATERIALS & SUPPLIES

Materials consumed by the project are eligible.

Materials supplied by subsidiaries or associated companies should exclude the profit element of the value placed on that material (i.e. these are to be valued at cost).

If waste or scrap material has a significant residual/resale value, the figures should reflect this

Materials or Supplies that are intended by your organization to be capitalized should be classified as Capital & Equipment (see the section on Capital & Non-Capital Equipment & Facilities).

Note: Inventory on hand prior to the project start cannot be reimbursed. Only material purchased and used during the project timeline can be reimbursed.

TRAVEL COSTS

All travel expenses must be in accordance with the [National Joint Council Travel Directive](#) to be eligible for reimbursement.

Only reasonable costs incurred exclusively for advancing the project will be accepted as an eligible expense.

ELIGIBLE FUNDED COSTS CONTINUED:

OTHER ELIGIBLE DIRECT COSTS

Other direct costs which can be specifically identified and measured as being incurred on behalf of project activities are eligible (e.g. licenses, software subscriptions etc.)

USER FEES

Service fees and software subscription/license fees directly related to the project are eligible expenses. If the user fees are being charged by a partner, please reach out to NGen Project Finance for clarification.

Project administration fees charged to the projects by NGen are ineligible. A project partner cannot also be a sub-contractor for labour or consultancy.

ROOM OR FACILITY RENTALS

The additional cost of rented factory or lab space for the project may be eligible. Only contracts entered into after the project start date would be reimbursable.

Overheads or costs incurred by the project in respect of the routine administration and operation of the organization, such as rent on existing facilities, utilities, etc. are **ineligible**. Further, the cost of rented office space or common area square footage is **ineligible**.

CONFERENCE COSTS

Costs related to renting facilities to support conferences and related telecommunication expenses are eligible but must have a specific and direct link to project activities.

Travel to an advanced manufacturing conference or an industry association conference would be considered an ineligible expense.

DISSEMINATION COSTS

Publication costs of project results are eligible but must not include any dissemination costs relating to production or commercialization, such as selling, marketing, or advertising costs.

ELIGIBLE FUNDED COSTS CONTINUED:

INTELLECTUAL PROPERTY (IP) COSTS

Reasonable costs relating to the patent protection of foreground intellectual property (IP currently foreseen to be developed during the project) are eligible:

For example:

- patent drafting, filing, prosecution costs
- patent office fees
- prior art searching

IP costs will be eligible for reimbursement under the Ngen AI4M program, provided:

- only SME's will be able to claim IP costs
- cannot exceed \$200,000 eligible IP cost per SME

Reasonable costs relating to the patent protection of background intellectual property may be eligible if the IP is listed in the IP register and if the IP is directly related to the project.

UNFUNDED INDUSTRY MATCHING COSTS:

The following costs are counted towards the value of the project but are ineligible for reimbursement from NGen AI4M funding (“Unfunded Eligible”):

- Direct payments to federal entities, such as the National Research Council (NRC).
 - NGen will encourage the participation of the NRC in projects. The funding framework on which we deliver our innovation program means that the mechanism for the NRC to participate in a project would be through a subcontract to an industry partner.
- Infrastructure costs (such as designing, acquiring, constructing, improving, or expanding the infrastructure serving the Project, and the improved and unimproved real property, buildings, and structural components of buildings and personal property. This includes any labour, travel, equipment, and sub-contract costs related to infrastructure development)
- Costs related to construction, purchase of a building or land.
 - Advance approval by NGen is required where leasehold improvements which remain with the building and are typically made by the owner and include modifications to interior spaces to the operating needs of the tenant—for example, changes made to ceilings, flooring, and inner walls.
 - Alterations to the exterior of a building or modifications that benefit other tenants in the building are not considered leasehold improvements. Examples of non-leasehold improvements include elevator upgrades, roof construction, and the paving of walkways. This includes any labour, travel, equipment, and subcontract costs related to leasehold improvement.

Any eligible costs incurred before the approval of the project by NGen – projects will be notified when they are in the eligible funding window.

In-kind contributions are non-cash paid goods and services that are provided/donated to the project at no cost and are not eligible for reimbursement by NGen.

OTHER CONDITIONS:

Complementary Other Government Funding on projects:

- Projects may receive complementary funding from other government agencies.
- NGen AI4M funds cannot be used to reimburse costs already covered by funding from other government sources.
- NGen limits complementary other government funding stacking at 100% of eligible project costs
 - Projects must abide by the lowest stacking limit of the complementary other government funding sources
 - Other government funding sources may fund project costs that are considered as ineligible for funding by NGen. These will not count towards the NGen stacking limit.
- Projects must report other funding agency and amount funded for the project duration.

Costs charged by a Related Party to the client:

Any costs charged to the client for reimbursement from NGen, by a related party, must be transacted at cost and supporting evidence of the cost base will be required to be submitted with the claim.

INELIGIBLE COSTS:

- Retroactive costs (i.e. those costs incurred prior to the project start date as specified in the funding confirmation letter)
- NGen Admin Fees
- Capital, infrastructure, or equipment costs unrelated to project objectives.
- Expenses relating to the construction, purchase of a building or land (except as set out in the section on Unfunded Industry Matching Costs).
- Fines and penalties.
- Provisions for contingencies.
- Losses on investments, other projects, contracts, bad debts, or expenses for the collection charges.
- Federal and provincial income taxes, withholding tax, excess profit taxes or surtaxes and/or special expenses in connection with those taxes.
- Refundable harmonized sales tax (HST), goods and services taxes (GST), provincial sales taxes (PST/QST), foreign value added taxes (VAT),
- Customs and duties.
- Expenses and depreciation of buildings or rooms that are not in use during the project.
- Amortization of unrealized appreciation of assets.
- Depreciation of assets paid for by NGen.
- Honoraria, gifts, donations, entertainment expenses, and alcoholic beverages.
- Dues and other memberships other than regular trade and professional associations.
- Extraordinary or abnormal fees for professional advice unless NGen's approval is obtained prior to incurring the cost.
- Premiums for life insurance where proceeds accrue to the recipient.
- Discretionary severance and separation packages.
- Costs related to the routine administration and operation of recipients, except salary costs specifically related to the eligible project.
- Costs related to overhead incurred by recipients.
- Costs for which the recipient is eligible for a rebate from federal, provincial, territorial, or municipal government sources.
- Salaries of the Members of the Board of Directors.
- Legal, accounting and consulting fees in connection with litigation or financial reorganization.
- Activities where benefits accrue to a single firm or organization.
- Projects where, in the opinion of the Minister, there is no buy-in from Members and no collaborative aspect.

POST AWARD:

Claims will be made on a reimbursement basis following submission of a claim form, copies of invoices >\$500 and other documentation as required to support the amounts claimed.

Claims are to be submitted to NGen every three months. Claims should be submitted within 2 weeks of the project quarter end, but not more than 45 days after the project quarter end.

Once the claim and the supporting documentation has been received by NGen, it will normally be paid within 45 days

On the final claim, companies will have 30 days post Project End Date to submit invoices for goods received or services incurred during the project term.

NGen will apply a 15% holdback of the funding until it has received and approved all outstanding claims, as well as the project reporting and monitoring obligations as set out in the Master Project Agreement have been met.

NGen A14M funding is subject to availability of funds being approved annually by Parliament.

The project financial plan will be included in the Master Project Agreement