

General Principle

The total Eligible Costs of the Project shall be the sum of the applicable direct costs which are, or will be reasonably and properly incurred, in the performance of the Project, less any applicable credits. These costs shall be determined in accordance with the client's cost accounting system as accepted by the NL Innovation Council and applied consistently over time.

Definition of Reasonable Cost

- (a) A cost is reasonable if, in nature and amount, it does not exceed that which would be incurred by an ordinary prudent person in the conduct of a competitive business.
- (b) In determining the reasonableness of a particular cost, consideration shall be given to:
 - (i) whether the cost is of a type generally recognized as normal and necessary for the conduct of the performance of the Project;
 - (ii) the restraints and requirements by such factors as generally accepted sound business practices, arm's length bargaining, federal, provincial and local laws and regulations, and Agreement terms;
 - (iii) the action that prudent business persons would take in the circumstances, considering their responsibilities to the owners of the business, their employees, customers, the government and public at large;
 - (iv) significant deviations from the established practices of the client which may unjustifiably increase the Eligible Costs; and,
 - (v) the specifications, delivery schedule and quality requirements of the particular Project as they affect costs.

Eligible Costs and Cost Categories

Eligible Costs have been classified under three categories: Capital Costs; Wages and Salaries; and Other Operating Expenses.

Eligible Costs include all reasonable direct and incremental costs deemed essential for the implementation of the project and that are not specifically identified as being ineligible by the NL Innovation Council. These include the following:

(a) Capital Costs

This category includes capital assets other than Buildings and Major Renovations and that are considered essential for the project. These include assets such as testing equipment, computers, machinery and any other equipment that is considered essential for the project. Technology rights, also covered under this category, include the costs incurred for the acquisition of the rights to use technology up to the completion date of the project.

(b) Wages and Salaries

The acceptable wages and salary costs will be those considered essential for the project and may include the services of engineers, scientists, technologists, technicians, testers, programmers and others technical salaries directly related to the completion of the Project.

(c) Other Operating Expenses

This category includes all other costs that are not included in the previous two cost categories.

(i) Direct Materials

Direct materials are those that are necessary in due course of the research and are required to complete the project. Direct materials may be purchased solely for the project or issued from the client's inventory at cost.

(ii) Lease/Rent of Facilities

Lease and rental payments may be eligible if incremental and the lease is required in order to proceed with the project. These costs are only acceptable up to the completion date of the project. Cost allocation for the use of existing space owned by the client is not eligible.

(iii) Patents

Fees for patent searches and patent filing fees may be acceptable. Patent filing fees will only be allowed for countries that are identified as necessary for the success of the project. Patent costs will be charged at actual cost. Maintenance fees and all expenses incurred protecting a patent are not acceptable.

(iv) Subcontractors, Consultants and Services

This category is strictly related to research and development activities of the project. The amount acceptable from a subcontract is the actual incurred and paid contract

amount. If the subcontract is to be performed by a related party to the client, the expense will be eligible based upon actual costs incurred by the subcontracted party in the performance of the work. Any such case must be fully disclosed by the client.

Testing services fees, that are conducted by testing organizations or accredited laboratories (e.g., Canadian Standards Association (CSA), Ship Classification Societies) and that are essential to the success of the project, will be eligible. Testing services will be charged at actual cost. Transportation or equipment handling services directly related to project activities are also eligible.

The eligible are the cost of consultants engaged to carry out additional investigations which, in the opinion of the NL Innovation Council, are desirable to determine the specifications and characteristics of the product and are required for determining the course of the development activities. The eligible cost acceptable for a consultant is the actual incurred and paid contract amount.

(v) Travel Expenses

Travel expenses may be included as eligible costs and are defined as those reasonable travel related costs that are necessary to, and incurred solely in performance of the Project. These would include items such as airfare, hotels, car rental/taxi and meal costs. "Reasonable" travel costs would exclude items such as alcohol, entertainment and business class air fare, etc. Travel expenses submitted for reimbursement shall normally be reimbursed at rates not to exceed those established pursuant to the guidelines and policies of the NL Innovation Council even if such rates are lower than the actual costs incurred by the client.

List of Non-Eligible Costs

Non-Eligible Costs include, but are not necessarily restricted to, such items as:

- a. costs of land, goodwill and asset costs in excess of fair market value;
- b. cost allocation for the use of existing space owned by the client;
- c. motor vehicles and vessels not used exclusively for the project;
- d. fixed/period charges: recurring charges such as property taxes, rentals and reasonable provision for depreciation;
- e. insurance, dues and other membership fees;
- f. interest costs, bond discount, and other financing costs;
- g. marketing or other costs which pertain to the commercialization phase;
- h. promotion and selling expenses;
- i. professional fees, salaries, overhead or other costs incurred in the normal course of operations;
- j. researcher stipends

- k. non-incremental salaries
- l. non-incremental expenditures;
- m. expenditures incurred and cost commitments made before proposal receipt date; and
- n. standard office consumables