

INDUSTRIAL BENEFITS

INFORMATION BULLETIN

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***EXPRESSIONS OF INTEREST, PREQUALIFICATION OF SUPPLIERS/CONTRACTORS,
BID LISTS AND INVITATIONS TO TENDER***

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BENEFITS PLAN CONTENT CALCULATIONS***

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INDUSTRIAL BENEFITS INFORMATION BULLETIN

Before the Canada Nova Scotia Offshore Petroleum Board ("the Board") may authorize any work or activity in the Nova Scotia Offshore area, including seismic and/or exploratory drilling, a Canada-Nova Scotia Industrial Benefits and Employment Plan ("Benefits Plan") must be prepared by the operator and approved by the Board.

In order to provide guidance to operators in preparing the required Benefits Plan, the Board has established *Industrial Benefits and Employment Plan Guidelines*. These Guidelines identify that each Benefits Plan submitted to the Board shall have the following objectives:

- The employment of Canadians and, in particular, residents of Nova Scotia; and
- The participation of Canadian and, in particular, Nova Scotian businesses in the provision of goods and services

This Information Bulletin supplements the *Industrial Benefits and Employment Plan Guidelines* by providing specific information the Board requires of operators when:

1. preparing Benefits Plans relating to seismic and/or exploratory drilling programs,
2. submitting Expressions of Interest, Bid Lists and Notices of Contract Award, and
3. calculating Canada-Nova Scotia content.

With respect to item (3), the General Principles, Definitions and Interpretations which operators should incorporate into their Benefits Plan content calculations are consistent and comply with Generally Accepted Accounting Principles, Canadian General Standards Board definitions and the Board's Guidelines for calculating industrial benefits content.

SEISMIC/EXPLORATORY DRILLING BENEFITS PLAN DATABASE REQUIREMENTS

Database Requirements

- Dollar Value of Employment

Total employment expenditure for the project, broken out into Nova Scotian, Other Canadian and Foreign components. Must be in Canadian dollars.

- Seismic/Professional Crew

Total number of seismic/professional crew on the project, broken out into Nova Scotian, Other Canadian and Foreign components.

- Marine/Rig Crew

Total number of marine/rig crew on the project, broken out into Nova Scotian, Other Canadian and Foreign components.

- Procurement - General Supplies

Itemized project procurement expenditures under a General Supplies category, broken out into Nova Scotian, Other Canadian and Foreign components. Must be in Canadian dollars.

- Procurement - Service and Maintenance

Itemized project procurement expenditures under a Service and Maintenance category, broken out into Nova Scotian, Other Canadian and Foreign components. Must be in Canadian dollars.

- Procurement - Vessel

Itemized project procurement expenditures under a Vessel category, broken out into Nova Scotian, Other Canadian and Foreign components. Fuel acquisition costs should be a separate item. Must be in Canadian dollars.

- Total Project Expenditure

Should agree with the total of the above Employment and Procurement expenditures. Must be in Canadian dollars.

- Include Project R & D Initiatives and Expenditures
- Include Project Training and Technology Transfer Initiatives and Expenditures
- Include Vessel Name and Anticipated Project Start and End Dates

EXPRESSIONS OF INTEREST, PREQUALIFICATION OF SUPPLIERS/CONTRACTORS, BID LISTS AND INVITATIONS TO TENDER

Operators are required to notify the Board of their intentions regarding Expressions of Interest, Prequalification of Suppliers/Contractors, the development of Bid Lists for procurement purposes and Invitations to Tender.

The notices shall include:

- A description of the service/item to be purchased,
- Anticipated dates for award and commencement and completion of work, and
- Estimated value.

The operator must receive prior approval of the Board for all activities related to the purchase of goods and services for a project, and having a value in excess of \$50,000, as identified in the Board's *Industrial Benefits and Employment Plan Guidelines*. The \$50,000 benchmark may be increased at the CEO of the Board's discretion, having regard to the overall project expenditure.

Expressions of Interest, Prequalification of Suppliers/Contractors, Bid Lists and Invitations to Tender must be prepared by the operator in accordance with requirements set out in the Guidelines.

CONTRACT AWARDS

Operators are required to notify the Board of their intentions regarding the awarding of contracts.

The operator must receive prior approval of the Board for contract awards having a value in excess of \$50,000, as identified in the Board's *Industrial Benefits and Employment Plan Guidelines*. The \$50,000 benchmark may be increased at the CEO of the Board's discretion, having regard to the overall project expenditure. The operator must include a review of the analysis of the proposals, justifying the selected contractor.

Notices of Contract Award must be prepared by the operator in accordance with requirements as set out in the Guidelines.

GENERAL PRINCIPLES, DEFINITIONS AND INTERPRETATIONS REGARDING BENEFITS PLAN CONTENT CALCULATIONS

General Principles

Content is calculated on a pre-income tax basis.

For calculating content, use either the principle of "Canadian cost incurred plus Canadian profit" or "selling price less foreign costs". The same principle is applied to "Nova Scotian" and "Foreign" calculations.

Reasonableness and materiality should always be considered.

All information should be derived through generally accepted accounting principles (GAAP) and relate back to the contractor's financial statements.

Foreign exchange should be calculated using actual transaction exchange rates as opposed to a fixed rate calculation.

For major suppliers of material, content is fixed only on contract completion. For major contracts, the content information must be updated throughout the life of the contract.

Pre-sanction costs should be reported in benefit content reports.

Contractors must obtain benefit reports from subcontractors, including person hours.

Definitions

Canadian Citizen

A Canadian citizen is a person who was born in Canada and has not relinquished his or her Canadian citizenship; or a person who has been granted Canadian citizenship; or a person who has been granted landed immigrant status.

Canadians who have resided in Nova Scotia should be reported for the first six months of the project as "Other Canadian" and after six months on the project, should be reported as "Nova Scotian". Non-Canadians should always be reported as "Foreign" regardless of the length of time on the project.

Nova Scotia Resident

A Nova Scotia Resident is a Canadian citizen or landed immigrant who meets the residency requirements for voting in a provincial election, as defined in *The Election Act of Nova Scotia*, which states "...a Canadian citizen or landed immigrant who has resided in the province for the immediately preceding six month period...".

Non-Canadian

A non-Canadian is a person who was not born in Canada and who has not been granted landed immigrant status.

Nova Scotian Person Hours

This represents the number of Canadian citizens or landed immigrants who were residents of Nova Scotia times the number of hours in a normal work week, times the number of weeks the person has been employed on the project.

Hours worked on the project by a Nova Scotian who has temporarily relocated outside of Canada or outside of the province while retaining Canadian citizenship, are considered Nova Scotian person

hours. Foreign employees working on the project in Nova Scotia would not be classified as Nova Scotian person hours.

Person Year

One person year equals one person working a full year or 2,080 hours. To translate person years into jobs, the number of person years is multiplied by a factor of 1.10 to 1.35, based on the types of activities and the average duration of jobs required to carry them out.

Nova Scotian Company

For a Nova Scotian company, controlling shareholders must be residents of Nova Scotia, it must have an operating office in the province, and it must be registered with the provincial Registry of Joint Stocks.

Other Canadian Company

For an Other Canadian company, controlling shareholders must be residents of Canada, it must have an operating office in Canada, and it must be registered with the appropriate authorities to conduct business in Canada.

Interpretations

Canadian Content

Canadian content is that portion of the cost of a product or service associated with the work performed in Canada by contractors, subcontractors and suppliers. The same interpretation is applied to "Nova Scotian" content or "Foreign" content.

Labour Expenditure Content

Labour expenditure content is based on the location of labour performed and reported in dollars. Expenditures for labour by Foreign citizens, residents of other provinces or Nova Scotians performed in Nova Scotia represent Nova Scotian content. Labour performed in other provinces would be Other Canadian content. Labour performed in other nations would be Foreign content.

The exception is when the labour is performed offshore on a rig or vessel on which the crew lives in isolation. In that case, the content is based on the permanent residency of the laborer, to which he or she will return at the end of the shift.

Labour Employment Content

Labour employment content is based on the residence status and citizenship of the employee and reported in person hours.

Note that Labour Expenditure Content and Labour Employment Content are two separate reporting items.

Temporary Labour Services (i.e. Kelly Office Services,

Office Overload, etc.) Content

Temporary labour services should be classified using the location of labour in determining the content of labour expenditures reported, and the residence status for determining content of person hours reported, in the same manner as other project labour is accounted for.

Depreciation Content

The calculation of the content for depreciation of office equipment and computers is based on the point of purchase and where the components are sourced from and manufactured. For example, where a computer is manufactured or assembled outside of Canada the percent of Foreign content would also apply to depreciation.

Donations Content

Donations should be attributed to the region where they were donated.

Equipment Rental or Purchase Content

Large rentals or purchases of equipment which are usually manufactured elsewhere should be classified 100% Foreign or 100% Other Canadian or some split between the two categories. If sold or rented from an office in Nova Scotia, usually about 15% Nova Scotian content would be appropriate. The supplier or contractor is required to report content.

Food and Catering Content

As a general guideline, the content for food and catering can be broken down as 75% Nova Scotian, 25% Other Canadian and 0% Foreign. There should, however, be supporting evidence in the way of industry statistics or economic models which provide audit evidence. In addition, where food and catering are a high value procurement (\$ Millions), another percentage split may be acceptable if the vendor is supplying an actual benefits split with a reasonable explanation of variance from industry average.

General Consumables (i.e. safety equipment, electrical

supplies, valves, fittings, etc.) Content

As a general guideline, the content for general consumables purchased through a Nova Scotian based company can be broken down as 35% Nova Scotian, 35% Other Canadian and 30% Foreign. There should, however, be supporting evidence in the way of industry statistics or economic models which provide audit

evidence. In addition, where general consumables are a high value procurement (\$ Millions), another percentage split may be acceptable if the vendor is supplying an actual benefits split with a reasonable explanation of variance from industry average.

Insurance Costs Content

Insurance costs will not likely be 100% Nova Scotian content. There could be a Nova Scotian broker, however, the content has to take into account where the risk is covered, i.e. Lloyd's of London.

Lease/Charter Content

The content of leased premises is determined by the location of the building and the ownership of the lessee. If located in Nova Scotia and leased from a Nova Scotian company, it would be 100% Nova Scotian content. If owned by Other Canadians or Foreigners, then some reasonable portion should be classified as Other Canadian or Foreign, representing the mark up for profit and non-Nova Scotian overhead of a non-Nova Scotian company.

The content for a supply vessel leased or chartered from a Foreign company would have Canadian or Nova Scotian content only with relation to operating costs, the rest would be considered foreign costs. If the vessel was purchased from a foreign source, the value of the depreciation component of cost would be classified as Foreign. If the vessel was leased from a Nova Scotian company and was built in Nova Scotia, this would be calculated as Nova Scotian content.

Materials Content

The content of materials depends on where the materials are sourced from or manufactured. A product or material purchased from a vendor with a Nova Scotian address, could not be 100% Nova Scotian content if the material was not manufactured in the province. Only the mark up and overhead for the Nova Scotian vendor would be Nova Scotian content. The rest would be Foreign or Other Canadian. Vendors are required to report content to proponents, contractors and subcontractors.

Overhead Content

Overhead includes all contractor's indirect expenses such as expenses not directly chargeable to jobs. (Overhead is usually prorated to jobs on some acceptable base. Ensure consistency of application, i.e. equitable among jobs.) Reported Overhead expenditures should be consistent with those reported in the contractor's books of account and financial statements.

For overhead costs charged by a contractor, the content classification is based on where the expense was incurred, rather than the country of incorporation. The content of the portion of overhead representing recovery of head office wages for management, administration or supervision is based on where these employees perform their duties.

Overhead costs incurred by Foreign companies operating in Canada or Nova Scotia and incurring overhead costs at these locations will have some Canadian or Nova Scotian content for overhead costs regardless of country of incorporation or location of head office.

Specific overhead costs for rent, supplies, equipment purchases, etc., should be classified on the same basis as direct costs. When the charge is for an allocated contribution for overhead of a certain office or head office, then the content is based on where the office is located and the costs incurred.

Payment to Governments Content

This does not include HST, GST or income taxes, all of which are not considered for content.

Payment of property taxes, duties, licenses, fees, etc., will be classified as Nova Scotian content for Provincial government and municipalities in Nova Scotia; Canadian content for provincial governments and municipal governments outside of Nova Scotia; Canadian content for payments to the federal government; and Foreign content for payments to non-Canadian governments.

Profit Content

Profit is the actual profit booked by the contractor on the project and is consistent with the contractor's financial statements. Profit has to be reflected as it is earned, not calculated at the end. When calculating the content breakdown on a contract, it is necessary to include profit in the total project expenditure calculation. This can be combined with overhead when submitting reports, so it does not stand alone.

Profit is based on the ownership of the company. Profit earned by a company controlled by Nova Scotians is deemed Nova Scotian content; profit earned by a company controlled by other Canadians is deemed Other Canadian content; profit earned by a company controlled by non-Canadians is deemed Foreign content.

Therefore, if a subcontractor is reporting 100% Nova Scotian content, but is not owned by Nova Scotian residents, there is likely an error, as in that case, there would be Foreign or Other Canadian profit (and overhead) involved. As a guideline, while corporate income taxes are excluded from content calculations, if there is Canadian corporate tax paid, there is Canadian profit content.

The same principles are applied to calculate the profit portion of content in a Joint Venture scenario, i.e. profit content relates back to where controlling shareholders are located and what the joint venture profit-sharing arrangement is. Even if there is an agreement to leave the entire profit in Canada or Nova Scotia to grow the company, eventually it will be allocated and, therefore, the profit content calculation has to reflect that. For example, in a Joint Venture arrangement between a Foreign company and a Canadian

company, where they have agreed to split profit 50-50, the same split must be applied to the profit content.

Overhead in the Joint Venture scenario would be calculated pursuant to "Overhead Content".

Refined Fuels Content

As a general guideline, the content for refined fuels can be broken down as 32% to the refining province, 18% Other Canadian and 50% Foreign. There should, however, be supporting evidence in the way of industry statistics or economic models which provide audit evidence. In addition, where fuel is a high value procurement (\$ Millions), another percentage split may be acceptable if the vendor is supplying an actual benefits split with a reasonable explanation of variance from industry average.

Service Costs Content

The content of service costs is calculated at the location where the expenses are incurred, rather than location of head office. The supplier or subcontractor is required to report content.

Subscriptions, Publications, Fees and Dues Content

The content of these items is attributed 100% to the region or location of the invoice.

Transportation Costs Content

Transportation costs content would be reflected by the ownership and location of the carrier involved. A Nova Scotian company operating from Nova Scotia would be 100% Nova Scotian content. A Canadian company operating from outside Nova Scotia would be 100% Other Canadian content. A Foreign company operating in Nova Scotia would be Nova Scotian content except for mark-up for Foreign profit and overhead.

If an item was purchased in Europe and freighted, content would be 100% Foreign. If the item was purchased in Europe then trucked by a Nova Scotian trucking firm, the trucking costs would be Nova Scotian content, the rest would be Foreign content. If the item was purchased and marked "FOB destination", the distribution trail of materials involved would have to be followed, i.e. if the content breakdown on the materials was 65% Other Canadian and 35% Nova Scotian, then the freight transportation would be the same.

Travel Costs Content

The benefit should be classified based on where the travel cost is incurred.

For example, if the contractor incurs significant airfare in Calgary to fly staff to Nova Scotia and return, this should be classified as

"Other Canadian" content. The meals and hotels, etc, would be Nova Scotian content.

Contractor/Subcontractor Expenditure Report Elements

Operator and contractor/subcontractor expenditure reports should contain these elements:

- Profit and overhead are built into content calculations. For the purposes of benefits reporting, they can be bundled together to maintain confidentiality of profit numbers.
- Content achievement should be supported by appropriate documents and records maintained and consistent with the contractor's financial statements.
- Reported person hours worked is supported by contractor records, and determined in accordance with the residency definitions.
- Current and cumulative Nova Scotian, Canadian and Foreign content are detailed.
- Invoice amounts by expenditure category such as "Labour", "Materials", "Services", etc., are included.
- The report includes the contractor's name, invoice numbers, contract number, month, year and contact information for the contractor.
- An officer of the contractor's company must certify on the reports that the reported expenditures by content classification have been recorded in accordance with the criteria set out by the Canadian General Standards Board and the Canada-Nova Scotia Offshore Petroleum Board, generally accepted accounting principles and the regional benefits reference manual (if applicable); are reconciled to the accounting records of the contractor, and have been verified to supporting evidence of content classification.
- The report is signed by an officer of the contractor's company.