

Canada - Nova Scotia Benefits



1997
Annual Report

**CANADA-NOVA SCOTIA BENEFITS
1997 ANNUAL REPORT
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1. PROJECT OVERVIEW

Introduction

The Canada-Nova Scotia Benefits 1997 Annual Report (the Annual Report) for the Sable Offshore Energy Project (SOEP or the Project) is hereby submitted to the Canada-Nova Scotia Offshore Petroleum Board in accordance with the requirements of the *Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation Act*, and the *Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation (Nova Scotia) Act*, (the Accord Acts).

The Annual Report reflects the provisions of the Canada-Nova Scotia Benefits Plan (the Benefits Plan) submitted by the SOEP proponents to the Board in June 1996 as part of their Development Plan Application. Approval of the Benefits Plan and Development Plan was implemented by the Board on December 30, 1997 subject to certain conditions.

The Annual Report addresses Project Benefits activities to December 31, 1997 and forward projections, as well as the documentation of Canada-Nova Scotia Benefits processes and initiatives to be undertaken during the implementation of the Project.

The Annual Report has been prepared and submitted by Sable Offshore Energy Incorporated (SOE Inc.), a company formed by the SOEP proponents to construct and operate the Project.

Project Development Plan

The Project involves the development of six natural gas fields in the vicinity of Sable Island, off the coast of Nova Scotia. The six fields; Venture, South Venture, Thebaud, North Triumph, Glenelg and Alma (Figure 1), are now estimated to contain greater than 3.5 trillion cubic feet of recoverable gas reserves, enough to support a sales gas rate in excess of 460 millions standard cubic feet per day. The Project is targeted for production start-up in late 1999 and has a total life span of about 25 years.

Sable Island Area Discoveries

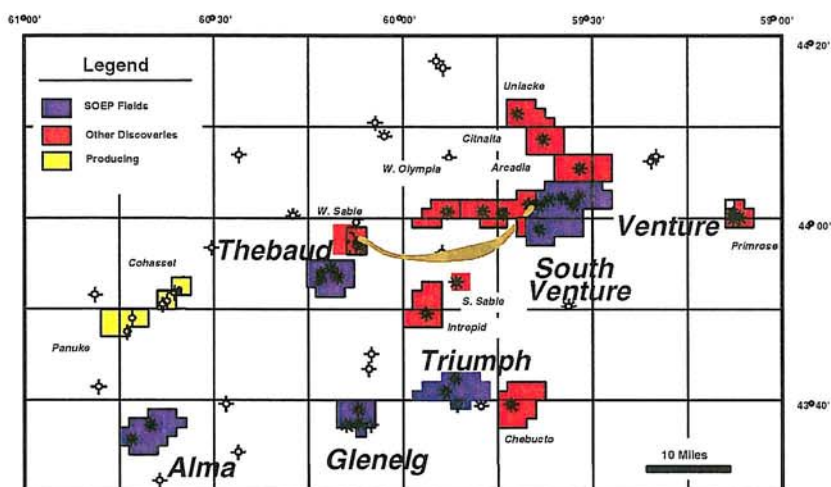


Figure 1

The Development Plan (Figure 2) involves production platforms at each of the six fields. A platform at Thebaud will provide central facilities for gathering, dehydration and future tie-ins for compression of the gas from all the fields. A second platform at this location will provide wellhead facilities for the Thebaud field itself. Hydrocarbons produced at the Venture, South Venture, North Triumph, Glenelg and Alma platforms will be transported through a system of subsea flowlines to the Thebaud platform. After dehydration at the Thebaud platform, the raw gas will be transported through a subsea pipeline to landfall at Goldboro, Nova Scotia, and to a gas processing plant located nearby. There the gas will be conditioned by the removal of natural gas liquids (NGLs) and remaining water to meet high quality sales gas specifications. The sales gas will then be shipped to markets in eastern Canada and the northeastern United States, through the Maritimes and Northeast Pipeline Project (M&NPP). NGLs and condensate will be transported by pipeline to Point Tupper for final processing.

SABLE OFFSHORE ENERGY PROJECT Development Plan

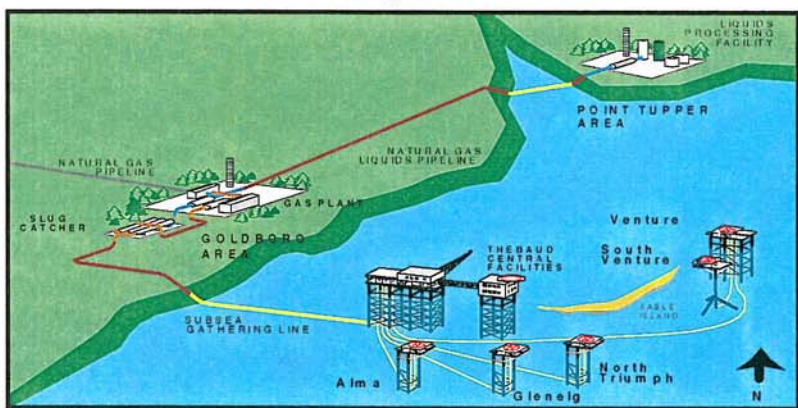


Figure 2

Regulatory Process:

The SOEP Development Plan was submitted to relevant regulatory agencies for approval in June 1996. These agencies included the Canada-Nova Scotia Offshore Petroleum Board (CNSOPB) and the National Energy Board (NEB). Later an application for a permit to build the (NGL) pipeline was filed with the Nova Scotia Energy and Mineral Resources Conservation Board (EMRCB). Pursuant to an agreement (Agreement for a Joint Public Review of the proposed Sable Gas Projects) signed by the Ministers of Environment for Canada and Nova Scotia, the Ministers of Natural Resources for Canada and Nova Scotia, the Chairman of the NEB and the Acting Chief Executive Officer of the CNSOPB, the SOEP and M&NP applications were the subject of an extensive regulatory process and public hearings. At the end of 1997, the SOEP Proponents received the following approvals to proceed with the implementation of the Project, subject to certain conditions:

- NEB Certificate of Public Convenience & Necessity
- CNSOPB Development Plan Approval
- CNSOPB Benefits Plan Approval
- NSDOE Environment Assessment Approval
- EMRCB Pipeline Permit

Summary Schedule:

The current SOEP project schedule is presented in summary form in Figure 3. The schedule is focused on achieving first production in the fourth quarter of 1999. Current detailed project schedules are presented as Appendices 1, 2 and 3.

Although the Project encountered significant delays during 1997, largely associated with a longer than expected regulatory process, the Project remains on schedule for first production in late 1999. The production start-up target has been achieved by advancing key Project implementation activities in parallel with the regulatory process.

SOEP Summary Schedule

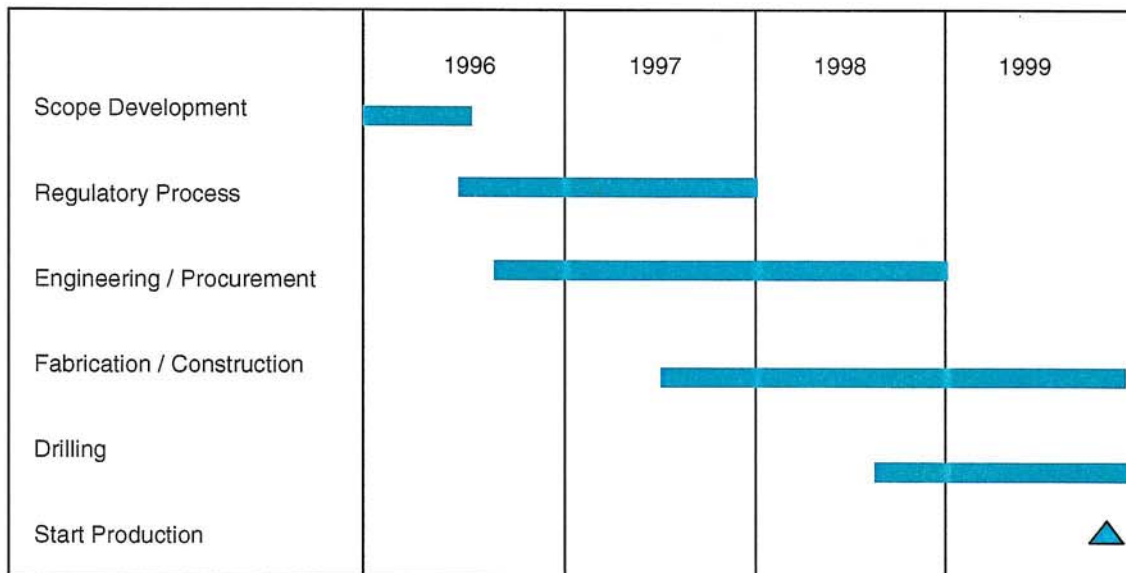


Figure 3

The following highlights some of the Project implementation activities that occurred in 1997:

- **January**
 - Benefits Advisory Committee formed to provide a stakeholder forum for the discussion of SOEP Benefits' progress and issues
- **March**
 - Drilling Rig contracts awarded to Rowan Companies Inc. and Santa Fe Drilling Company
 - Land Office opened in Guysborough
- **April**
 - Joint Public Review Hearings began
 - Early Jackets contract for Venture and Thebaud awarded to the MM Industra/Brown & Root Joint Venture
 - Engineering Support contracts awarded to East Coast Offshore Alliance and Accent Engineering of Halifax
 - Subsea Pipelay contract awarded to Allseas Canada Ltd.
- **May**
 - Offshore Transportation and Installation contract awarded to Saipem (UK) Ltd.-Canada
- **June**
 - Onshore Alliance Contract awarded to Brown & Root, BMS Offshore and Agra Monenco (BBA)
 - New SOEP Website developed in Halifax-now online
 - Local Information offices opened in Guysborough and Port Hawkesbury
- **July**
 - Joint Public Review Hearings end
 - North Triumph Topsides contract awarded to the MM Industra/Brown & Root Joint Venture
- **August**
 - Long lead purchase orders issued
- **October**
 - Joint Review Panel Report released
 - Commissioners Report released
 - Drilling Support Services contract awarded to Offshore Logistics Inc.

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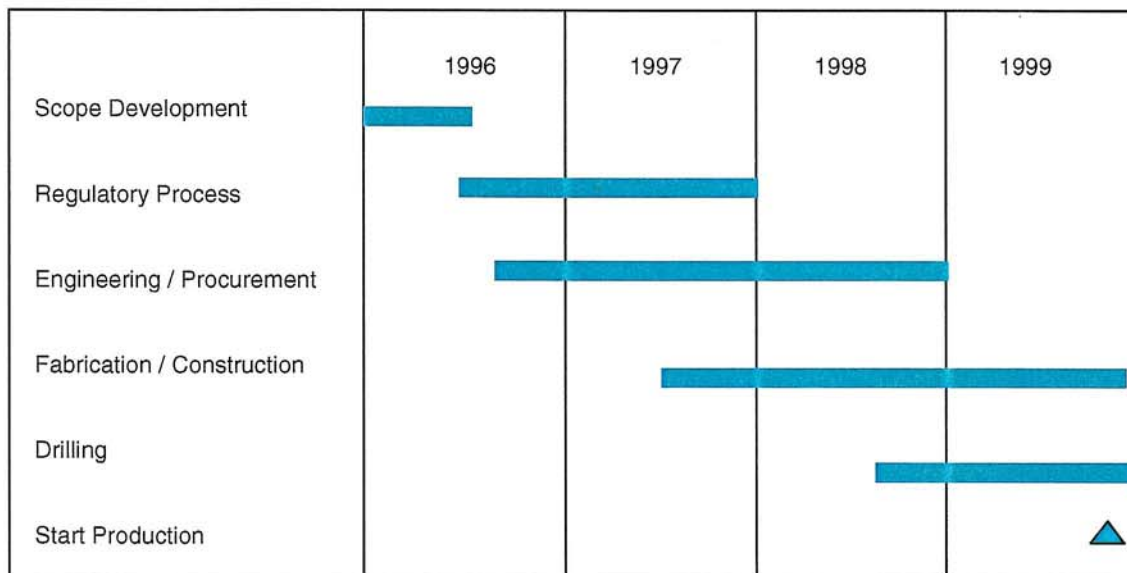


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- **November**
 - Supply vessel contract awarded to Secunda Marine
- **December**
 - Final Regulatory approvals granted

2. ESTABLISHMENT OF NOVA SCOTIA OFFICE

Subsequent to the filing of its regulatory application in June 1996, SOEP opened an office in Halifax in September 1996, to guide participation in the regulatory process and to facilitate Front End Engineering Design (FEED) procurement activities. The initial complement of four persons represented Public Affairs, Procurement, and Regulatory Affairs. The SOEP office included an information office to facilitate access by the public to SOEP activity. After the initial opening of the office, additional staff were added in the fall of 1996 to coordinate Canada-Nova Scotia Benefits requirements and to further assist in FEED procurement activities. As well, the BIDS Nova Scotia Ltd. (BIDS) supplier registration service and the SOEP Certifying Authority (Lloyds) established representatives in the office to further support Project activities. During the first half of 1997, the basic office complement was regularly enhanced by SOEP and Proponent personnel from other locations and Nova Scotia contracted personnel as required by the workload. The office complement continued to grow gradually as the regulatory approval process progressed with the addition of the SOEP Operations Manager.

A Land Office was established in Guysborough in March to oversee land acquisition activities for the onshore facilities. In June of 1997, Information Offices were opened in the town of Guysborough and in Port Hawkesbury to provide Project information in the local communities where the onshore facilities will be built.

A rapid build-up of staff in Halifax began in the third quarter of 1997. The Well Construction Manager and staff began moving into the Halifax office in August to oversee preparations for drilling, scheduled to begin by midyear 1998. Later the SOEP Facilities Alliance project groups began establishing their presence in Halifax, initially with the Transportation and Installation contractor (Saipem) and the Onshore Construction Management contractor (BBA) and later with the Offshore Pipeline contractor (Allseas). By the end of 1997, the Halifax office complement was approaching 100 persons.

With the receipt of regulatory approvals at the end of 1997 and Project sanction in early 1998, a new corporate entity, Sable Offshore Energy Incorporated (SOE Inc.); was established and headquartered in Halifax. SOE Inc. will be responsible for all aspects of the implementation of the SOEP. Figure 4 illustrates the SOE Inc. senior management structure.



Figure 4

3. COMMITMENT TO CANADA-NOVA SCOTIA BENEFITS

Notwithstanding our commitment to SOEP's Project Principles and Guidelines regarding "International Competitiveness" and "Best Value", SOEP intends to restrict bid solicitation to Canadian sources where sufficient qualified Canadian Bidders are available to assure fair competition and "Best Value". Preference is given to qualified Nova Scotians followed by other Canadians when preparing bidder lists. This "First Consideration" preference is also given at the award stage. Capability to support the ongoing project beyond construction is considered, where appropriate, as part of "Best Value".

SOEP proactively seeks out Nova Scotian and other Canadian companies to participate in the Project (by survey and by advertisement, potential companies are identified to prequalify for inclusion on the bidder's list). The identified companies are offered advice on issues to improve their competitiveness in bidding and their qualification for the work. Those companies attaining qualified status are placed on the bidder list after which "sealed competitive bid" procedures are observed. Improved contractor capabilities, knowledge and technology transfer that would result from the awarding of contracts and the subsequent ability to undertake future work are also evaluated as part of qualification.

Actions under this procedure are already underway in Nova Scotia. Forums and Open Houses have been held in the province targeting local and regional concerns at the individual, industry association and local authority level. Meetings were held, for example, with jacket fabricators, consulting engineer firms, and Canadian steel manufacturers to identify the requirements that would enable them to compete effectively. The Facilities Alliance participants and major contractors follow these principles where additional services and goods are required in respect of the contractor's scope of work.

SOEP technical support staff also assist the local service and supply community to qualify as bidders on major pieces of business, through identification and recommendations relative to the high oil and gas industry standards associated with Health & Safety and Environment (HS&E) and Quality Assurance/Quality Control (QA/QC). In particular, during 1997 SOEP technical staff conducted numerous visitations, evaluations and debriefing sessions with Canadian manufacturing and fabrication firms, concentrating on those in Atlantic Canada. Examples of Canada/Nova Scotia benefits resulting from efforts made by SOEP include:

- Contracts awarded to MMI Industria/Brown & Root J.V, Dartmouth, N.S. for two Early Jackets (Venture & Thebaud) and the Topside for North Triumph.



Early Jackets under Construction in Dartmouth Yard

- Contract awarded for detailed engineering of fractionation plant and other facilities to Accent Engineering of Halifax, N.S.



Accent Engineering Personnel Working on Detailed CAD Design

These, along with future, similar, infrastructure awards associated with the project will contribute to the establishment of a sustainable oil and gas support industry on the East Coast of Canada.

4. CONTRACTING/PROCUREMENT PROCESS

The Sable Offshore Energy Project requires the services of the international business community. Contracts for fabrication, supply, drilling, and installation are offered for tender on the basis of free, open and international competition. The Project seeks suppliers who are reputable, in good financial standing, who practice quality and safety management and who demonstrate continuous improvement.

Full and Fair Opportunity

The contracting/procurement plan adopts SOEP's guiding principle for Canada-Nova Scotia benefits; to provide full and fair opportunity for Nova Scotia and Canadian residents and businesses, on an internationally competitive basis.

This guiding principle is communicated widely to all SOEP employees, particularly with contracts and procurement personnel located in the various Project locations. The Engineering/Procurement (E/P) teams are encouraged to contact and learn about the Canadian and Nova Scotia's supplier community. Buyers and engineers have access to the supplier database generated by BIDS and uploaded into Project database known as AXIOM. The Canada - Nova Scotia Benefits Peer Group works closely with E/P and contracts personnel to ensure consistent application of Project principles and procedures.

The procurement process is designed to ensure that qualified Nova Scotian and Canadian companies have full and fair opportunity to bid for work. The BIDS system is an innovative, effective advertising method to provide timely contract information to local manufacturers and suppliers on the opportunities to participate in the Project throughout the Facilities Alliance and its major sub-contractors.

A proactive communication program was implemented to create business and public awareness of Project activities and opportunities. This program is communicated through two websites, (www.soep.com and www.bids.ca), mass media, open forums, meetings, information sessions, information packages and through all Sable offices. Examples of such activities carried out in 1997 are provided in Appendix 4.

First Consideration

In cases of "close" best value tenders, First Consideration is provided to Nova Scotia companies, then other Canadian companies and finally non-Canadian companies. Engineering/Procurement package teams are encouraged to think "Why can't we do it in Nova Scotia or Canada?" Each bid tabulation recommendation is reviewed by a SOEP management team comprised of Canada-Nova Scotia Benefits, Operations and Engineering, Health, Safety & Environment, Quality Assurance, Construction, Materials Procurement and Project Management. The bid tabulations show Canada-Nova Scotia benefits for total expenditures and

percent employment. Other local benefits factors are considered at the bid recommendation stage, such as long-term operations support requirements and opportunities for technology transfer to Nova Scotia and Canada.

Bidding Process

Advance notice of Project schedule and activities are done at a high level through the various communication channels noted. A 90 day forecast of Request for Proposals was implemented in 1997 and is updated every month on the SOEP web site. The 90 day forecast and outlook of activities is discussed at regular meetings of the Benefits Advisory Committee and the CNSOPB's Benefits Review Committee.

The first step in the bidding process for interested potential suppliers is registration via BIDS. SOEP and BIDS have taken a proactive approach through a variety of means to communicate the requirement and benefits of registering with BIDS. For a nominal fee individual suppliers are encouraged to register for the work categories of interest to them. More than 2000 companies have registered with BIDS, of which 750 are in Nova Scotia. More than 256 Expressions of Interests (EOIs) have been issued by SOEP through BIDS to the registered companies.

Expressions of Interest on Project requirements are widely disseminated through BIDS and other means such as the SOEP web site, Construction Association of Nova Scotia (CANS), Offshore Technology Association of Nova Scotia (OTANS) and periodically through the print media.

Following the receipt of EOIs, pre-qualification of bidders occurs. Pre-qualification may be accomplished via a questionnaire and/or supplier site visits. The pre-qualification determines a potential suppliers' capability to meet Project requirements for safety and quality management, experience or technical level, certification level, commercial considerations and understanding of the scope of work. This prequalification list is then submitted to the CNSOPB for additional suppliers of the goods and services.

The bidder list, determined by the package team and CNSOPB, is reviewed by SOEP Canada - Nova Scotia Benefits personnel for completeness. The rationale used to develop the bid list is reviewed with the CNSOPB. Following review by the CNSOPB, the Request For Proposals (RFPs) is issued to bidders. The RFPs include Canada-Nova Scotia Benefits instructions to bidders and a bidder questionnaire. When appropriate, bidder lists and awards are posted on

the website to inform the Nova Scotia business community of additional subcontract opportunities. Bids are received in the form of sealed tenders and are opened via a formal bid opening exercise attended by appropriate SOEP personnel.

Bid evaluation is based on best value and consideration of Canada - Nova Scotia Benefits. Bidder clarification meetings are held when appropriate. Notice of award recommendation to the CNSOPB is followed by award notification(s) to the successful bidder and those that were unsuccessful. Award debriefings are provided to any bidder upon bidder request(s). Awards are posted on the SOEP website.

5. SUPPLIER DEVELOPMENT

The presence of a strong, viable domestic supply and service sector is a key factor in meeting the long-term requirements of SOE Inc. as well as the emerging East Coast offshore oil and gas industry. One of the principles of SOEP is to promote the development of this supply and service sector.

5.1 Initiatives Undertaken

The Project was active in several areas of supplier development during the pre-sanction period up to the end of 1997. Industry, supplier, community and government forums were held in various Nova Scotia communities during 1997. Communications with local suppliers have taken the form of information sessions, workshops, presentations at organizational meetings, supplier site visitations, scheduled one-on-one meetings, telephone communication between supplier and SOEP personnel in Halifax, Calgary or Houston. Appendix 5 describes the main initiatives undertaken in 1997.

Canada-Nova Scotia Benefits Advisory Committee (BAC)

This committee is an initiative of SOEP to establish two way communication with industry suppliers, contractors and labour and to foster local development and business enhancement methods while adding value to the project (see BAC Charter attached – Appendix 6) .

The inaugural meeting was held on January 28, 1997. Seven meetings were held throughout the year. The BAC continues to play an important role in business communication and in

supplier development. The BAC provides SOEP with an invaluable source of community feedback on Project activity and plans and also a forum to give advice and address concerns.

Canada – Nova Scotia Benefits Peer Group

SOEP has established goals or “Stakes in the Ground” principles for the Project. These stakes entrench performance requirements in the areas of:

Safety	Quality
Costs	Technical Excellence
Canada-Nova Scotia Benefits	Resource Management

A Peer Group, with representation from across the Project, has been established for several of the “stakes”. The Project uses the peer group process as a unique leverage for SOEP’s success in maximizing performance.

In July 1997, a Canada-Nova Scotia Benefits Co-Ordinator position was established reporting to the Facilities Project Manager. One of the responsibilities is to chair the Canada-Nova Scotia Benefits peer group. The Canada-Nova Scotia Benefits peer group includes representatives from Operations, Drilling, Contracts, Engineering and Procurement and the Facilities Alliance partners of Agra Monenco/Brown and Root, Saipem (UK) Limited-Canada, Allseas Canada Ltd, Kvaerner Oil & Gas, Elsag Bailey, BBA as well as the SOEP Canada–Nova Scotia Benefits group.

The peer group meets regularly to provide direction and consistency of approach across the project in the implementation of Canada-Nova Scotia Benefits commitments.

Canada-Nova Scotia peer group activities include the following:

- Establishment of goals, objectives and accountabilities for the peer group members
- Implementation of guidelines for Facilities Alliance partners and subcontractors
- Publishing of a “Regional Benefits Reference Manual” for project participants
- Regular video conferencing meetings with Halifax, Calgary, Houston and Teesside
- Identification of sub-contracting activities to stimulate internal discussions to maximize local benefits

- Co-ordination of the procurement process with the regulatory approval process within each Facilities Alliance contractor and area of the Project
- Establishment of common communication links among Facilities Alliance contractors at the buyer level
- Identification and communication of locally sensitive packages and contracts
- Distribution of lists, directories and other information on the local supplier community throughout the Project
- Scheduled meetings with the CNSOPB and Audit Canada to inform the Peer Group about the roles of those organizations and the processes used for Canada-Nova Scotia Benefits reporting
- Continued stimulation of the SOEP team and Facilities Alliance contractors to “think out of the box” and stretch to find opportunities to enhance Canada-Nova Scotia Benefits

The peer group initiative will continue to have a strong influence and benefit on Project activities as the Project progresses in 1998.

Nova Scotia and Canadian Supplier Groups

The Project interfaces with a large number of groups representing Nova Scotia industry; suppliers, contractors, labour, consultants and government. The following groups have had direct links to the Project through the BAC and through various SOEP and Facilities Alliance Contractor activities:

Construction Association of Nova Scotia	Strait Highlands Regional Development Agency
Strait Area Chamber of Commerce	Enterprise Cape Breton Corporation
Offshore Technologies Association of Nova Scotia	Natural Resources Canada
Atlantic Canada Opportunities Association	The POGO Group
Nova Scotia Consulting Engineering Association	Halifax Regional Development Agency
Economic Development and Tourism Nova Scotia	Human Resources Development Canada
Nova Scotia Petroleum Directorate	Various Labour Unions in Nova Scotia
Guysborough Co. Regional Development Authority	Association of Professional Engineers of NS

Communication of Proponents Purchasing/Contracting Procedures

A variety of initiatives were undertaken by SOEP to provide information to the local supplier community. A number of workshops and presentations by SOEP personnel have been held in Halifax, Guysborough County, Port Hawkesbury and Sydney. Various talks by SOEP personnel have been held at supplier association and industry meetings. BIDS Nova Scotia and SOEP personnel have been proactive in advertising the procedures for BIDS and the need for local suppliers to register with BIDS to receive EOIs.

SOEP recognizes the importance of breaking down barriers and allowing the local vendor the opportunity to participate in the Project. Communication and execution of the SOEP procurement process has been a necessary component to facilitate the removal of barriers. Communication of "best value" principles to the local community has been important in the context of a competitive international market place. Where possible, larger packages have been broken into smaller ones to allow greater Nova Scotia and Canadian opportunity. This effort has resulted in awards in Nova Scotia of pressure vessels, living quarters, early jackets, North Triumph topsides, project management support, fractionation plant design, onshore construction packages, etc.

Information Gathering on Local Supplier & Contractor Capabilities

Supplier information gathering is done initially through the BIDS registration system. By registering with BIDS, suppliers names are entered into the central Project database (AXIOM) which is accessed by all SOEP buyers, procurement and engineering personnel. Through this database, buyers learn who the suppliers are and speak with them about Project requirements and supplier expectations. Communications take place between procurement personnel and buyers about safety, quality and other SOEP pre-qualification requirements. Site visits by SOEP personnel and contractors to the supplier shops are common and have been an excellent way to exchange information (Appendix 7). Public forums and industry association meetings has been a positive mechanism for meeting local suppliers and learning more about their capabilities.

5.2 Evaluations (Opportunities/Deficiencies)

The bulk of purchasing activity in 1997 was for critical long lead equipment items and materials required for early fabrication such as primary steel. In general, the equipment requirements were

both complex, specific to the gas industry and in many cases, of a kind not currently manufactured in Canada.

Successes

The promotion of Canada-Nova Scotia content has been, and will continue to be, a factor in our bid evaluations. For example, although the compressor and generator packages are from the USA, by working with the suppliers we have secured Canadian manufactured sub components. Some examples in 1997 where the Canada-Nova Scotia content has positively influenced the final award are:

Early Jackets	MM Industra/Brown & Root J.V.
API Tanks	Stenpro, Liverpool
Produced Water	Baker Hughes (MMI fabrication in Dartmouth)
Personnel Evacuation System	IMP Group, Halifax
RFP Pipe	EMCO/Pipe Specialties Canada
CPI Deck Drains	Monk Engineering (Stenpro Fabrication, Liverpool)
UPS & DC Battery System	W.N.White, Halifax/Exide

Other contracts have also been awarded to Canada-Nova-Scotia companies based on best value. The following represents examples where local proximity of facilities and/or the potential for long term servicing were key factors in reducing costs and providing short and long term service.

Distributed Control System	Elsag Bailey
North Triumph Topsides	MM Industra/Brown & Root J.V.
Various Pressure Vessels	MM Industra
Drilling Support Services	Offshore Logistics Inc.
Supply/Standby/Towing Vessels	Secunda Marine
Carbon and Stainless Piping/Fittings	EMCO

Long Term Opportunities

Canada, and particularly Nova Scotia has been limited to date in technically qualified resources to facilitate complex and larger engineered equipment items. These had to be sourced internationally. This resource base is expected to increase in support of the oil and gas industry in the coming years. Nova Scotia companies are participating in the project at manufacturing and supply levels and are being exposed to a major world class project where experience can be exported. Because of the Project, future longer term opportunities exist for Canada-Nova Scotia companies in several areas, such as:

- Primary steel through Canadian mills (assisted by SOEP technical support)
- Filter separators - PECO Canada will be in a position to supply filter cartridges both to SOEP and other future projects
- Relief and Control Valves - The successful supplier (Atlantic Controls) has set up its local shop to provide long term service to SOEP operations with the potential to service future projects.

SOEP has generally encouraged the formation of partnerships between manufacturers and local suppliers and joint ventures between local companies and other companies experienced in aspects of the gas industry. Several local companies showed this initiative and were successful in winning Project contract awards. These partnerships will establish a strong capability enabling Nova Scotia to be internationally competitive for future opportunities in the industry. Joint venture examples during 1997 include:

MM Industra/Brown & Root J.V.
Brown & Root/Agra Monenco
Brown & Root/BMS Offshore/Agra Monenco
East Coast Offshore Alliance
ACCENT engineering consultants
AMI Offshore - Genoyer
Atlantic Controls (Crosby and Fisher)
Jacques Whitford/McLelland Geosciences

Debriefings

Contract debriefing for unsuccessful bidders is done at the request of the interested individual companies. The debriefing provides information to the unsuccessful bidder on best value criteria, impacting the contract award and deficiencies deserving of attention for success in future opportunities.

There are areas which, if recognized and addressed by local suppliers, will positively impact on future involvement with SOEP in the short term and longer term. Local suppliers should not wait for the industry to come to them, rather they should be proactive, and as much as possible, determine project requirements ahead of time. SOEP's requirement for functional specifications leaves an open door for potential suppliers to be innovative and yet competitive. Areas where local suppliers may benefit include:

- Early proactive information gathering and planning
- Industry networking to explore joint venture arrangements/partnerships to minimize risk
- Developing a business plan inclusive of target market and financial risk analysis
- Establishing safety and quality management programs
- Updating technical certifications for the level of service or products
- Preparing a complete corporate resume
- Responding to SOEP procurement requirements on time
- Responding to all informational requirements at the pre-qualification stage
- Being prepared for a site audit visitation(s)
- Responding completely to information/expectations at the RFP stage
- Providing best value, competitive proposals and applying innovative thinking

6. EMPLOYMENT

Despite the fact that this Project had not been sanctioned until the end of 1997, the year did see many individuals obtain employment on the Project with the Project Proponents, the Facilities Alliance participants and with sub-contractors. Individuals with engineering backgrounds represented a large portion of pre-sanction employment, in line with the Project engineering focus during that period.

6.1 Employment Practices

In 1997, SOEP applied the full and fair principle to hiring practices, with priority for Nova Scotians. To meet this commitment, SOEP implemented a process directed at providing the fullest distribution of employment opportunities.

To help co-ordinate the circulation of resumes SOEP undertook the task of setting up and managing a database. Hundreds of resumes were received and logged into the database, which was purpose built by a Halifax company. Each resume was coded according to broad qualification and skills groups to assist the potential employer in finding the potential candidates quickly. Facilities Alliance members and their sub-contractors also access this database when searching for new hires.

In addition to the database, job opportunities are advertised in the major Nova Scotia daily newspapers and some community weeklies.

6.2 Diversity in the Work Force

SOEP is committed to working toward achieving a diverse work force. In the Canada-Nova Scotia Benefits Plan the Proponents state that they

“...will extend full and fair opportunity for all stakeholders to share in the economic benefits flowing from the Project. The Project team will ensure that, with due regard to safety considerations, disadvantaged individuals or groups have access to training and employment opportunities for the Project. The team will also ensure that such individuals or groups are appropriately represented, both on the Project team and among its suppliers and contractors. The Proponents will not intentionally discriminate against, or place any barriers in the way of, disadvantaged individuals or groups.”

In 1997 SOEP undertook several initiatives to work towards achieving a work environment based on full and fair opportunity in terms of hiring, training and supplier/contract practices. SOEP defined initiatives to achieve an inclusive atmosphere - one that continually supports individuals from all backgrounds. These activities included:

- Inserting a clause with respect to diversifying the work force in the “Canada-Nova Scotia Benefits - Contractor Obligations”;
- Individual and group meetings with each of the Facilities Alliance participants to explain in detail the Project’s employment principles;
- Preliminary meetings with the Aboriginal/Native Peoples community.

6.3 Training

The Canada-Nova Scotia Benefits Plan outlined the Proponents’ perspective on training:

“ The Proponents would assess the need for training in a timely manner as the Project proceeds and requirements become known. Should qualified personnel not be readily available or additional training programs be required, the Proponents would consult with the Regulator, educational institutions and other stakeholders to enable them to develop training programs. A desired objective would be the continued development of a qualified, in-demand workforce.”

The Project has focused on post-employment training, where individuals are hired for their basic skills and will be upgraded by the employer. This type of training responds most effectively to the Project’s immediate training needs but also provides Nova Scotians with long-term marketable skills.

Training has already occurred as a result of the Project, both directly and indirectly, despite the fact the Project was not sanctioned during this 1997 reporting period. The following represents a sampling of Project related training undertaken in 1997:

- BBA sent an individual to California to study orbital welding which is an automated computerized welding system run by a pre-determined program that ensures all welds are executed in the same way. This is a technique that was not widely used in Canada and that may be used in construction of the slugcatcher as well as in other areas of the Project.

- Several meetings were held with representatives of the Nova Scotia Community Colleges. Representatives from SOEP involved in long term operations of the Project played an active role in the College's Offshore Committee Meetings.
- Lloyd's Register has initiated a new internal training course in the North American region for Surveyors working on offshore projects such as SOEP. It is a one-week course that covers a range of topics including API standards and Risk Management. The first course was run in November, 1997 and three Nova Scotia engineers working on the SOEP attended.
- MM Industra/Brown & Root Joint Venture trained and upgraded more than 80 welders in the innershield welding process required for the fabrication of the Venture and Thebaud Early Jacket project. Each welder received in excess of 40 hours of training.
- Two Nova Scotian full-time and one Nova Scotian part-time employee of Nortech Jacques Whitford Inc. received either MED-A1 or Basic Survival Training and Standard First Aid training courses. The two full-time employees were also trained to use specialized company equipment and software.
- CSC Project Management Services trained their Calgary staff in risk modelling and application of risk and decision analysis techniques. One of those trained was a Nova Scotia student trainee.
- Jacques Whitford & Associates provided site specific Health Safety and Environment training programs, including WHMIS, for approximately 25 Nova Scotians and other Canadians.
- Jacques Whitford & Associates provided first hand offshore geotechnical on-the-job-training to eight Canadian personnel (four were Nova Scotians) employed by Jacques Whitford & Associates who had not previously worked on offshore energy projects.
- Rowan Companies Inc. commenced rig crew training I December 1997 for approximately 30-35 Canadians (approximately 75% Nova Scotian). This consisted mainly of on-the-job training on the Gorilla III and the necessary courses to travel offshore. This effort will continue into 1998.

- Four co-op students were hired in 1997 to participate in project activities; i.e. operations, subsurface and benefits.
- Four new graduates from university (all Nova Scotians) were hired and will be assigned to various departments throughout the Project for training and development.
- SOEP hired an engineer in the spring of 1997 who was sent to Aberdeen to train with Santa Fe Drilling Company (North Sea) Ltd. This effort will provide offshore North Sea experience on jackup and floating rigs and potentially bring new technology through learning to the SOE well construction team.

7. TECHNOLOGY TRANSFER

"Technology Transfer" is the conveyance of new technologies, equipment, knowledge or techniques into a defined geographic area that was not formerly present in that geographic area. The Project will result in two kinds of technology transfer.

- 1) Technology transferred to Nova Scotia: The source of the technology can either be foreign or from another Canadian province. The technology must not exist in Nova Scotia.
- 2) Technology transferred to Canada from a foreign country: The technology must not have existed anywhere in Canada prior to this Project.

The following is a sample of Project related technology transfer activities undertaken in 1997:

- The MM Industra/Brown & Root Joint Venture resulted in significant technology transfer from in the UK and U.S. Gulf Coast with respect to methods for fabrication and construction of offshore steel jackets.
- MM Industra/Brown & Root Joint Venture trained riggers and crane operators in the specialized lifts and procedures for the erection of the Jackets. This expertise did not previously exist in Nova Scotia.

- Elsag Bailey transferred two of their Nova Scotian employees to their home office in Burlington, Ontario to develop their knowledge and understanding of the gas production industry. Ultimately, these two individuals will relocate back to Nova Scotia to provide ongoing service, support and training for the life of the Project.
- Jacques Whitford & Associates expanded their existing joint venture arrangement with Fugro in the Survey technology and marine mapping fields. They also established an uplink station in their Dartmouth office for provisions of Starfix (Fugro) DGPS services to the East Coast oil and gas industry.
- Several foreign, technical, supervisory personnel have been brought into the SOE well construction team. This provides an opportunity for Canadians within the organization to learn practices and techniques from other areas which strengthens the Canadian expertise and allows for eventual succession of Canadians into these more senior roles.

8. RESEARCH AND DEVELOPMENT

The Benefits Plan outlined the Proponents' perspective on research & development:

"Research & Development (R&D) is a basis for improving on existing technologies and developing new technologies to support the growth of domestic industry. As major Canadian operators, the Proponents have conducted numerous research and development studies of offshore projects in this country. Where appropriate, the Proponents would continue to support local research institutions and promote ongoing research and development of the marine environment in Canada. R&D can also be supported through the encouragement of the formation of joint ventures and the development of licensing agreements between international and Canada-Nova Scotia firms."

In 1997, the Project began preliminary discussions with a number of the educational and research institutes in Nova Scotia. Often, these institutions were seeking guidance and direction for potential research and program development in order to effectively serve the needs of the growing industry in Nova Scotia. Most activity in this area requires extensive consultation and planning before tangible results can be realized. It is expected that the groundwork laid in 1997

will start to show results in 1998. Listed below is a sampling of project-related Research & Development initiatives undertaken in 1997:

- Washburn & Gillis Associates Ltd. compiled a database of environmental information from various provincial sources. This information was used in the description and delineation of the environment related to the various components of the Project.
- Nortech Jacques Whitford Geosurveys and the University of New Brunswick, Chair of Ocean Mapping, jointly developed a computer software package, which can provide three dimensional seabed characterization maps. The software was developed using previously collected SWATH survey data and provides imaging of the nearshore pipeline route. The software can potentially be used in other seabed mapping applications.
- Jacques Whitford & Associates developed a new "real time" software program specifically designed for SOEP for logging of downhole test data and borehole imaging as part of the offshore geotechnical investigation.
- SOEP donated \$50,000 to Geological Survey of Canada, to support research done by a Post Doctorate Student on sediment mobility around Sable Island.
- SOEP donated \$1,000 to the 1997 Atlantic Universities Geological Conference (AUGC).
- SOEP donated \$100,000 to help maintain the weather station on Sable Island
- Vantage Communications installed a T-1 server to accommodate the transfer and expansion of the SOEP website to Nova Scotia

9. CANADA-NOVA SCOTIA CONTENT

During 1997, cumulative actual expenditures on the Project reached a total of \$136.9 million. Recognizing that all regulatory approvals were not obtained until December 1997 and that Project sanction did not occur until February 1998, cumulative expenditures represent less than 5 per cent of the total Tier I and Tier II estimated development cost. Of the \$136.9 million spent to date, \$78.4 million or 57 percent represents expenditures attributable to Canada overall. The Nova Scotia content is \$28.6 million or 21 percent. At the same time, cumulative employment on the Project has reached about 1.2 million person hours. Of this amount, 52 percent is attributable to Canada overall. The Nova Scotia content is 24 percent. The following chart (Figure 5) tabulates actual Project expenditures and employment on the Project until the end of 1997 during the pre-sanction period.

Canada Nova Scotia Benefits Content Summary (represents 5% of total development cost)

Expenditures - Canadian Dollars Millions	Nova Scotia	Other Canadian	Foreign	Yearly Total
Revised Totals 1995 *	2.33	2.69	0.65	5.67
Revised Totals 1996 *	8.19	9.19	8.25	25.63
Revised 1996 Cumulative Totals	10.52	11.88	8.90	31.30
Percentages	34	38	28	
1997 Totals	18.07	37.89	49.61	105.57
1997 Cumulative Totals	28.59	49.77	58.51	136.87
Percentages	21	36	43	
Employment - Person Hours Thousands	Nova Scotia	Other Canadian	Foreign	Yearly Total
Revised Totals 1995 *	22.96	42.76	3.32	69.04
Revised Totals 1996 *	113.80	89.08	143.72	346.60
Revised 1996 Cumulative Totals	136.76	131.84	147.04	415.64
Percentages	33	32	35	
1997 Totals	149.22	195.97	407.11	752.30
1997 Cumulative Totals	285.98	327.81	554.15	1,167.94
Percentages	24	28	48	

* Updated from the 1995 and 1996 Benefits Annual Reports

Figure 5

The 1997 cumulative expenditure and employment statistics are presented graphically in the following two pie charts (Figure 6).

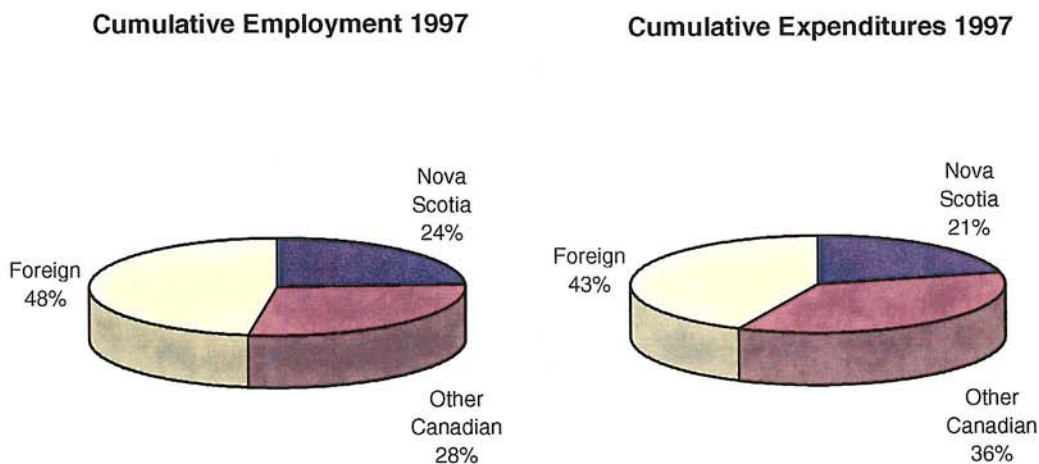


Figure 6

Pre-sanction expenditures include:

- costs associated with Development Plan application
- public hearing costs
- preliminary engineering – offshore and onshore
- geological/geophysical surveys
- early jacket fabrication
- environmental studies
- seismic programs

These early expenditures have tended to have a lower Nova Scotia content because pre-sanction planning and engineering activity was, as originally planned, largely completed in the centres of excellence for these activities, namely Houston and Calgary.

As of the end of 1997, the Nova Scotia share of cumulative expenditures is on track with our forecast. Figure 7 below presents forecasts on an “as spent” basis, of the Nova Scotia, Other Canadian (i.e. Canadian content excluding Nova Scotia) and foreign cumulative percentage shares of Project development and operating expenditures. Also presented for comparison on this chart are the cumulative percentage shares at the end of 1997. The actual Nova Scotia content of 21 percent at the end of 1997 compares closely to the 22 percent forecasted. The Other Canadian actual share of 36 percent is slightly lower than forecast while the foreign actual of 43 percent is slightly higher. The Other Canadian and foreign shares were both forecast at 39 percent. At the end of 1997 we have spent less than 5% of the total development capital.

Canada-Nova Scotia Benefits Cumulative Forecasts – Including Operations

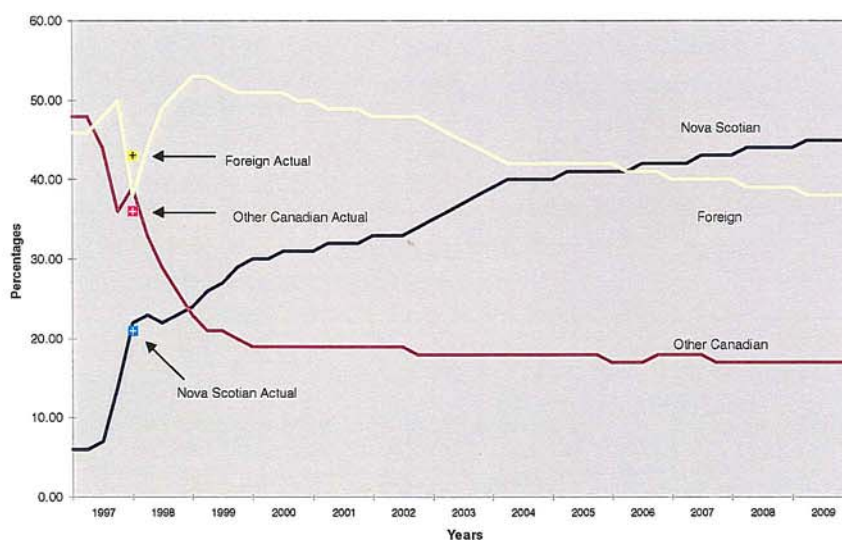


Figure 7

“Figure 7 is on an as spent basis and assumes 3% annual inflation”

The figure above indicates that the Nova Scotia share of cumulative development and operating expenditures is forecasted to ultimately reach 43 percent after Tier I and Tier II development phases. On a full cycle basis or at the end of the 25-year producing life of the Project, Nova Scotia’s share of expenditures are projected to be 55 percent on an as spent basis. In terms of Other Canadian and foreign share, Figure 7 shows that at the end of the Tier I and Tier II development phases, 15 percent of the cumulative expenditures will have been made in the rest

of Canada (i.e. Other Canadian excluding Nova Scotia) and 42 percent will be foreign. At the end of the 25 year producing life of the Project, the Other Canadian share will be 17 percent and foreign will fall to 28 percent. The foreign share falls over time because during the long producing life of the Project, most of the operating costs are spent in Canada with the lions share going to Nova Scotia.

Figure 7 shows that the Other Canadian content declined over time to the 17 percent level. Included among the reasons for the lower Other Canadian content are:

- heavy demand on Canadian steel mills for other industries impacted their opportunity to meet schedules and specifications for SOEP
- some Canadian equipment manufacturers and fabrication facilities were not as competitive as originally anticipated
- a lower than anticipated level of interest from a generally buoyant Canadian economy

On a full cycle basis, over the life of the Project (i.e. development and operations) costs are estimated to be as follows:

Canadian \$ Billions	1997 \$ Estimate	\$ As Spent*
Development(Tier I & Tier II)	2.4	3.0
Operations	2.2	3.1
Total Costs	4.6	6.1

The "1997 \$ Estimate" is based on constant uninflated 1997 dollars while the "as spent" estimate assumes general inflation of 3% per annum over the life of the Project. Operating and other post development costs will have a significantly higher Canada-Nova Scotia content. The Canada-Nova Scotia content, based on the full cycle costs, is reflected in the pie chart below (Figure 8).

Full Cycle share of As Spent Expenditures

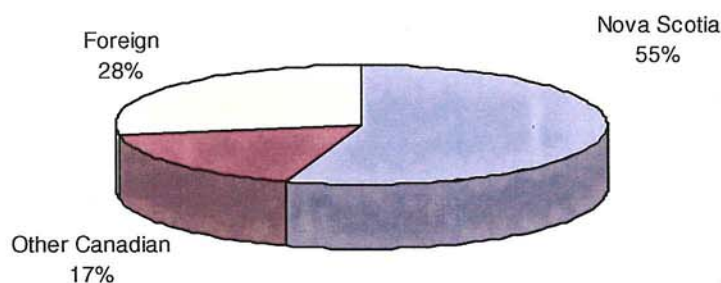


Figure 8

The Way Forward

SOEP is confident that the extensive initiatives undertaken to date will be successful in allowing the Project to meet or exceed forecasted Benefits levels as the Project progresses. This confidence is based on the dedication of our Project teams, including our Facilities Alliance contractors and other key contractors to promote Canada-Nova Scotia benefits and the evident ability of Nova Scotian and Other Canadian suppliers of goods and services to effectively compete. As will be reflected in our 1998 first quarter report, significant Canada-Nova Scotia wins have already been achieved in 1998. These achievements include the award of the anti-corrosion and concrete weight-coating for the subsea pipelines to Shaw and Shaw Ltd., a Nova Scotia/Canadian joint venture and of the living quarters design and fabrication contract to Fabco/CKT, a Nova Scotia/Dutch joint venture. The Shaw and Shaw contract, with a value of

\$45 million has 64% Nova Scotia content with an overall Canadian content of 94%. The employment on this contract will be 95% Nova Scotia. The Fabco/CKT contract of \$16.7 million has a 71% Nova Scotia content with 29% foreign. The Nova Scotia employment content is 90%.

Nova Scotia companies will get increased opportunities during Tier II and the longer term because of the groundwork being done in Tier I. The Project's efforts with local engineering and design activity, jacket fabrication and topsides construction will continue to build Nova Scotia capability and ensure that the infrastructure is in place for the future development of Scotian Shelf reserves, both within the Sable project and with anticipated new developments.

We are proud to note that, in life cycle terms; Nova Scotia content in the Sable Offshore Energy Project will rise to an estimated 55%.

APPENDICES

Appendix 1	Level I Master Schedule
Appendix 2 (3 pages)	Level II Schedule Offshore Facilities
Appendix 3	Level II Schedule Onshore Facilities
Appendix 4	Public Affairs Highlights - 1997
Appendix 5	Supplier Development Initiatives – 1997
Appendix 6	Charter Canada-Nova Scotia Benefits Advisory Committee
Appendix 7	Site Visits - 1997

(Status to 01 March 1998 - Rev1)

Offshore Facilities

Engineering

Procurement

Fabrication

Loadout

Transportation and Installation

Drilling

Pipeline

Engineering

Procurement

Installation

Offshore Hook up and Commissioning

Onshore Facilities

Engineering

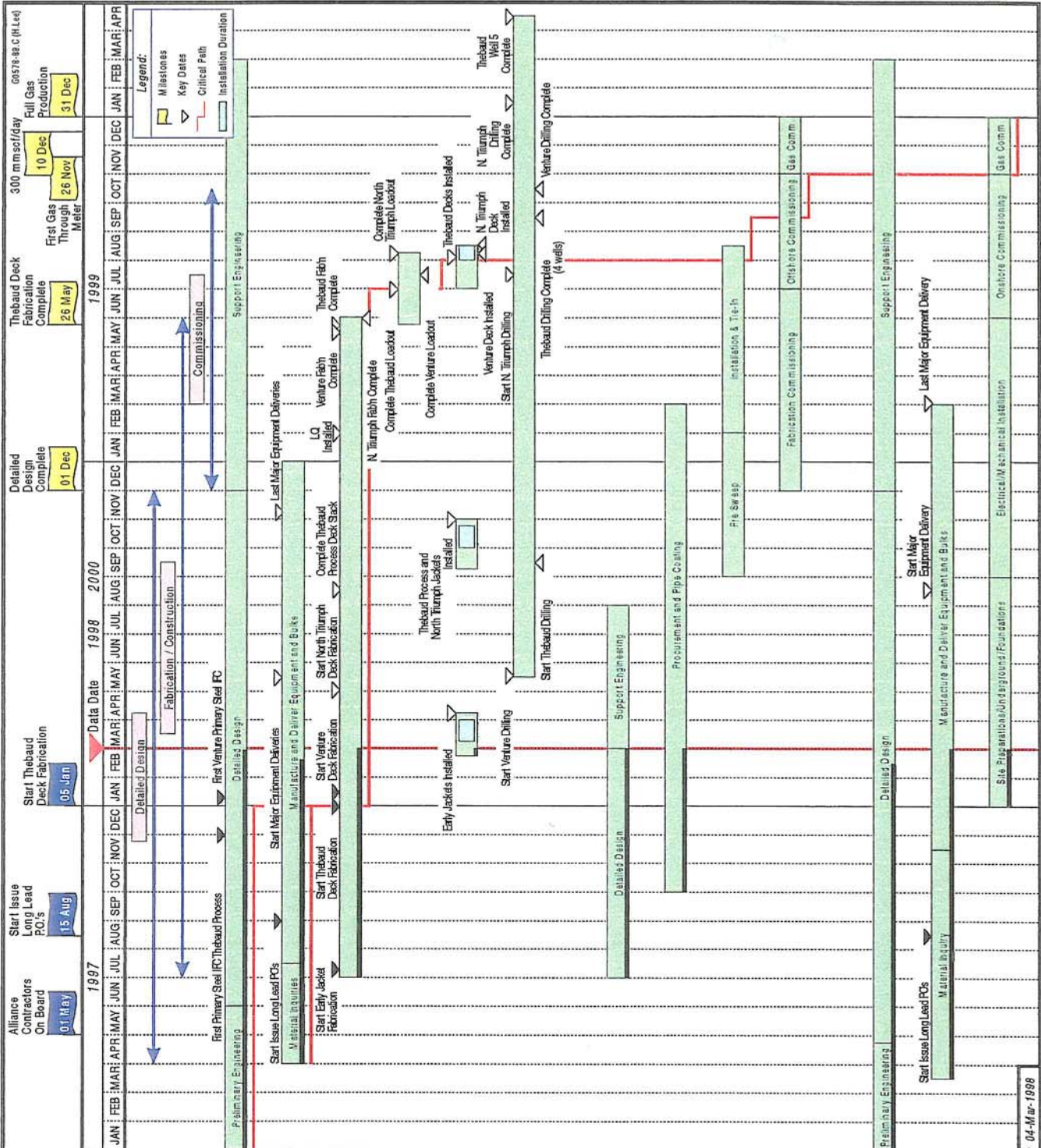
Procurement

Construction

Approved by:

File No.: G-53-430

Date issued: 04-Mar-1998



Level II - Schedule Onshore Facilities

300 mm scl/day
60376-50 C (H Let)

(STATUS to March 1, 1998)

Activity Description

Gas Plant

Engineering

Procurement

Fabrication/Construction

Fractionation Plant

Engineering

Procurement

Fabrication/Construction

Onshore Pipeline (Include Canso Crossing)

Engineering

Procurement

Construction

Approved by:

File No.: G-53-430

Date Issued: 06-Mar-1998

Public Affairs Highlights

1997

Appendix 4

- ❖ Establish and maintain Halifax-based SOEP Website for project information and procurement notices
- ❖ Establish project information offices in Halifax, Guysborough and Port Hawkesbury
 - On Display or available:
 - Development Plan Application (DPA) Volumes – distributed approximately 1000 to libraries and individuals
 - Various conceptual maps, charts, drawings
 - Model of the Project
 - Electronic Brochure distributed to conferences, workshops, mail, offices
 - Hardcopy Handouts
 - SOEP Website
 - BIDS Information
 - Acceptance of employment applications
 - Information on current contracting activity and business opportunities
 - General Project information
 - Project video distribution – 350 schools, libraries, et al – developed and distributed
 - Gas Project map – approximately 2000
 - Distributed DPA on CD Rom – approximately 650
- ❖ Media advertisements
- ❖ Participation in Community Liaison Meetings, Workshops
- ❖ Distribution of Petroleum Communication Foundation literature regarding the Petroleum Industry
- ❖ Community Sponsorships; including:
 - Canso Area Minor hockey
 - Scotia Festival of Music
 - Stan Rogers Festival
 - Granville Green
 - Guysborough Come Home Week

Supplier Development Initiatives - 1997

Date	Event	Location	Recipients	Purpose/Topic	Participants/Sponsors	SOEP Participants
26-Feb	Community Advisory Committee	Guysborough	Community Committee	Provide info to general community	SOEP	R. Gorbey, D. Lovatt
NOTES: SOEP representatives meet monthly with the Sable Community Advisory Committee to inform them of potential business and employment opportunities. SOEP, BBA and the Guysborough Regional Development Agency teleconference weekly to review coming BBA construction activity and contract awards. The purpose is to maximize local business participation and employment in the project.						
12-Mar	Business Development Forum	Sheet Harbour	Local business	Business development	SOEP	D. Lovatt, BIDS
16-Apr	Business EXPO	Halifax	Local business	Business development	SOEP	D. Lovatt, BIDS
24-Jun	Alliance Contract Strategy	Westin, Halifax	Suppliers and contractors	Information session/workshops	SOEP, OTANS	SOEP & Alliance Partners
1-Oct	SOEP Workshop	Burnside	Local business	SOEP procurement process	Halifax Chamber of Commerce, BIDS	D. Lovatt, J. Fitzgerald
8-Oct	CORE Show Booth/Display	Halifax	Business community	Advertise and provide information	SOEP, BIDS	Representative SOEP personnel
15-Oct	SOEP Workshop	Port Hawkesbury	Local business	SOEP procurement process	P. H. Chamber of Commerce, BIDS	D. Lovatt, B. Bryden, J. Fitzgerald
23-Oct	OTANS Board of Directors	Halifax	OTANS Directors	Canada Nova Scotia Benefits	OTANS Directors	J. Fitzgerald
18-Dec	APENS Offshore Committee	Halifax	APENS & Industry participants	SOEP Engineering Opportunities	APENS	J. Fitzgerald

**SABLE OFFSHORE ENERGY PROJECT
CANADA-NOVA SCOTIA BENEFITS ADVISORY COMMITTEE
CHARTER**

Objective:

To involve stakeholders in making the implementation of the SOEP Canada-Nova Scotia Benefits Plan a success.

Purpose:

To review and help communicate the Canada-Nova Scotia Benefits program/opportunities as well as provide a forum to discuss issues relevant to participation of local contractors and suppliers in the Project.

Limitations:

The committee is to be a consultative body to involve stakeholders. Matters of a confidential business nature, pursuant to the Competition Act and the Accord Acts will not be discussed.

Membership:

Flexible to include representatives from key stakeholder groups, including technical associations, trade associations, service industries and government representatives. (Reference Attachment).

Chairperson:

Rotational among the Project's Senior Management, depending upon current business activities.

Meetings:

Monthly during the initial high activity period to be held in Halifax or other venue as agreed to by the participants.

Activities:

1. To exchange information on current SOEP Project Activities together with near and interim forecast.
2. To provide status updates on implementation of Canada-Nova Scotia Benefits Plan.
3. To review issues/concerns relevant to the SOEP project.
4. To explore opportunities to enhance the supplier community's capability base.

SABLE OFFSHORE ENERGY INC.

SITE VISITS - 1997

Appendix 7

COMPANY	COMPANY ADDRESS	DATE VISITED
DOMINION BRIDGE INC.	1 CHANDLER DRIVE AMHERST, N.S. B4H 4J2	SEPT 26/97
FABCO INDUSTRIES LTD.	45 RADDALL AVENUE DARTMOUTH, N.S. B3B 1L4	NOV 17/97
MBB POWER SERVICES INC.	11 POND DRIVE SPRINGHILL, N.S. BOM 1XO	SEPT 26/97
MM INDUSTRIAL LTD.	3 ATLANTIC STREET DARTMOUTH, N.S. B2Y 4L7	AUG 21/97
MULGRAVE MACHINE WORKS LTD.	149 MILL STREET MULGRAVE, N.S. BOE 2GO	AUG 22/97
RKO STEEL LIMITED	85 MACDONALD AVENUE DARTMOUTH, N.S. B3B 1T8	DEC 4/97
STEEL AND ENGINE PRODUCTS LTD.	110 WATER STREET LIVERPOOL, N.S. BOT 1KO	AUG 22/97
TRENTON WORKS LTD.	TRENTON, N.S.	MARCH 24/97

CONTINUATION OF VISITS PLANNED FOR 1998