



NOV 16 2005

Mr. Randy Broiles
Senior VP Resources Division
Imperial Oil Limited
237 Fourth Avenue South West
Calgary, Alberta T2P 3M9

Dear Mr. Broiles:

This letter is pursuant to discussions with Mackenzie Gas Project (MGP) representatives in Edmonton on October 13, 2005 where we took stock of progress on the project. I understand that you now face an important decision about whether to proceed to public hearings in January 2006. In this context, I thought it would be appropriate for me to convey to you the Government of Canada's perspective on a number of key issues that may assist you in determining to move the project forward.

The Government of Canada recognizes the significant contribution the MGP can make with respect to important policy objectives of the federal government, including the financial benefits of sustained economic activity in the North; strong and healthy Aboriginal and Northern communities; and opening up a new frontier energy supply. The Government of Canada is committed to take all reasonable steps to ensure that this important project will go ahead subject, of course, to the legal, environmental and regulatory requirements being met. In this regard, for example, the Government of Canada is making investments totalling \$258 million to facilitate a timely regulatory and environmental response to the project.

You announced at the end of April your decision to halt project execution activities, in part because of the nature and scope of demands by aboriginal groups in your negotiations with them on access and benefits agreements. In light of this, I met with the Premier of the Government of the Northwest Territories (GNWT), and my colleagues, Minister Scott and Minister Blondin-Andrew, met with Aboriginal leaders on May 10th. At the time, it became clear that action was required to ensure that the project would remain on track.

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Since then, the Government of Canada has concluded an agreement worth \$31.5 million with the Dehcho First Nations which, among other things, will allow them to participate in the review process and to explore economic opportunities related to the project. In July, I met with Premier Handley and Aboriginal leaders which led to the announcement by the Government of Canada that it would provide \$500 million over ten years to help mitigate any socio-economic impacts of the planning and construction of the pipeline project on affected Northern communities, subject to project milestones being met. I understand that good progress has been made on the design of the fund, and the Government remains committed to proceed with implementation as soon as possible.

It is clear that significant Aboriginal support for the project will be of prime importance for the MGP to proceed. Despite the \$500 million commitment from the Government of Canada, no agreements on access and benefits have yet been signed. The government anticipates that the proponents' commitment to and Aboriginal groups' public support for the project will translate into the successful conclusion of appropriate access arrangements.

With significant Northern and Aboriginal support for the project, as would be demonstrated, for example, by a number of agreements being reached on access, the Government of Canada believes that it would be in the public interest that no party should impede the timely access to land required for the project to proceed.

The Government of Canada has also committed to work with you with respect to your request for fiscal enhancements. At our meeting in October, you made it clear that the project as currently proposed might not meet all of your assessment criteria for investment; accordingly, you are seeking from the Government of Canada the means for improving the project economics by a discounted present value of about \$1.2 billion.

Let me be clear: The Government of Canada is not prepared to subsidize the construction of the MGP. However, given the broad benefits of the project for all Canadians, and residents of the Northwest Territories in particular, and taking into account Canada's financial interests in the potential royalty revenues from this resource, the Government of Canada is prepared to consider supporting the MGP on terms that Canada considers commercially-reasonable.

In this regard, the Government of Canada is prepared to consider assuming some of the project downside risks, provided it is able to increase its share in the potential financial rewards.

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Moving forward, the Government of Canada is committed to working with you to explore options for its participation in the project. It is understood that at present, these options include, but are not necessarily limited to:

- Acceptance of royalties in-kind with a related firm service transportation commitment;
- Acceptance of incremental firm service transportation commitments in excess of the anchor fields transportation commitments;
- Symmetrical adjustments to the royalty regime; and,
- Various forms of federal investment in one or more components of the project.

With respect to the options being explored, the objectives of the government include fair and equitable arrangements among the project proponents and optimal conditions for shipments of additional gas volumes. In this respect, and separate from the above, we are aware of your support for a federal equity loan guarantee to the Aboriginal Pipeline Group (APG) to facilitate APG participation in the project. We also acknowledge that the APG equity loan guarantee, or equivalent, has featured prominently in your discussions with Aboriginal groups on access agreements. I can assure you that the Government of Canada will continue to give this issue serious consideration.

In recognition of the urgency you ascribe to the matter, the Government has already taken steps to secure external financial expertise. Your interest in concluding this process by mid-year 2006 is recognized, and we intend to work expeditiously to meet this deadline.

I also understand that you are concerned that the fiscal terms that would be established in the context of such discussions be maintained for the duration of the operation of the project. You have expressed specific concerns related to future possible devolution of federal authorities in the NWT to the territorial government as well as the possibility of new taxation powers being granted to aboriginal groups.

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With respect to the possibility of new taxation powers, please find enclosed a copy of Minister Scott's letter of September 22, 2005 to Premier Handley clarifying the Government of Canada's position on the matter.

I also want to reassure you that the Government of Canada is firmly committed to maintaining a competitive tax environment for businesses operating in Canada. In this respect, the corporate income tax reductions proposed in the 2005 Budget remain part of the Government's agenda and will be re-introduced in due course. Consistent with the Government of Canada's commitment to a competitive tax environment, the government has no intention of introducing new project-specific taxes with respect to the MGP or the region in which the project will operate.

As you know, some of the fiscal terms of the MGP, such as territorial corporate income tax and property tax, fall within the jurisdiction of the GNWT. Other fiscal terms, such as the royalty regime, could also fall within the jurisdiction of the GNWT as a consequence of an agreement on devolution between the Government of Canada and the GNWT. Therefore, it is appropriate that you discuss some of these matters directly with the GNWT.

The Government of Canada is committed to working collaboratively with you and the GNWT to address, to the extent possible, the concerns that you have identified. We will make best efforts to ensure that any devolution or self-government agreements in the Northwest Territories honour any commitments the Government of Canada may make with respect to the MGP.

In closing, I would like to reiterate that the Government of Canada recognizes the important contribution the MGP can make for the development of the North and for Canada's energy supply.

This letter should not be construed as a representation or warranty that gives rise to any legal rights and the matters herein are subject to the supremacy of Parliament. Further, the detail of any agreements that we may reach will, as you know, be subject to normal government approval processes and in fact may also require legislation. I trust that the actions taken to date demonstrate the

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commitment of the Government of Canada to do whatever is in the public interest with respect to this important project. Ultimately, project success will depend on what can be achieved in partnership with the proponents, Northerners and the Aboriginal people affected by this project.

I look forward to continuing to work together on this important project.

Yours sincerely,

A. Anne McLellan
Enclosure