Bilcon of Nova Scotia

305 Hwy #303, Suite #3
PO Box 2113
Digby, NS
B0V 1A0

Phone: 902-245-2476
Fax: 902-245-3757

E-Mail: leveille@ns.aliantzinc.ca

FACSIMILE TRANSMITTAL

DATE: April 28, 2005

TO: Bill Clayton, Jr.
732-905-7863

FROM: Paul Buxton
Project Manager

\# of pages 4
including this cover

Hi Bill,

In addition to the memo regarding the status of the EIS, I'm attaching a copy of an article from The Globe and Mail regarding the MacKenzie pipeline for your information.

From the desk of . . .
A. Leveille,
Document Director
Bilcon of Nova Scotia
(902) 245-2476
Fax (902) 245-3757
leveille@ns.aliantzinc.ca

P.O. Box 98
Annapolis Royal, BOS 1AO

Paul G. Buxton P.Eng.

Telephone 902 638 8108
Fax 902 638 3522

Memo

To: Bill Clayton jr./John Wall April 25th 2005

From: Paul Buxton

re: Status of EIS

We have had the final Environmental Impact Statement Guidelines since the end of March and have been reviewing them since that time. They are certainly very much expanded from the Draft Guidelines we received in November and it is clear that the Panel has paid significant attention to the comments received from the public during the January hearings.

In particular the areas surrounding consultation, traditional knowledge and the less scientific elements have been expanded but certainly not clarified. On the other hand the scientific elements have not changed significantly with the exception of a greatly expanded demand for background data.

We have been trying to estimate the time to complete the EIS so that we can respond to the Panel's demand for a timeline and to advise you of timing. As of last Saturday I have advised the Panel that we will submit the EIS by the end of Oct. 2005 with the proviso that I will advise the Panel on Aug. 1st 2005 as to the status, either behind or ahead of schedule.

In order to accomplish this I have asked David Kern (our principal writer) to provide me with 40 hours work a week until the Permit is granted.

I am trying to arrange for Andree Leveille (our document master) to take a year's leave of absence from her work with the Municipality of the County of Annapolis. At the very least we could get by with six months and then three days a week until the permit is granted.

As for myself I have ceased to take on any new clients for either on-site sewage disposal design or structural design and will be spending a minimum of 44 hours a week to get the EIS completed and a permit granted.

As noted in our recent discussions it is crucial that John continue his regular visits so that I can brief him on progress and of course to advise us of issues regarding the actual crushing and loading operation.

We are required to present a section in the EIS on the Proponent and parent company and we intend to use this opportunity to the full. We have via John the various certificates but I will need to present a review of your operations and will need to visit and meet with your occupational health and safety person and gather any other pertinent data for this section. I will make arrangements for June at your convenience.

As to costs to complete I am uncertain as to the amount. It is interesting that we have not been required as yet to sign a cost recovery agreement for the panel review process. [redacted]

If you feel we should meet to review our current status please let me know.

Paul

THE GLOBE AND MAIL
WEDNESDAY, APRIL 27, 2005

ENERGY

Mackenzie pipeline cost spiral feared by project's owners

Shell joins with Imperial Oil in voicing concern over delays in regulatory approval

BY PATRICK BRETHOUR, CALGARY

The soaring cost of supplies, regulatory delays and greater demand for compensation from northern aboriginal bands are threatening to inflate the cost of the $7-billion Mackenzie Valley pipeline, the project's owners say.

Shell Canada Ltd. said yesterday that "challenging issues" with regulatory approval for the Mackenzie Valley natural gas pipeline could boost the cost of the megaproject, as well as delaying the construction schedule.

"We're still working on it, but the challenges are not getting any smaller," said Shell spokeswoman Jan Rowley. Shell holds a 25-per-cent stake in the project, which would tap fields in the Mackenzie Delta and ship gas south to Alberta.

'We're still working on it, but the challenges are not getting any smaller.'

Last week, **Imperial Oil Ltd.**, the project's lead investor, warned that the Mackenzie project is "losing time" in the regulatory process, and that the pipeline might not begin operations by 2010, as hoped. "It's not a slam dunk," Imperial president and chief executive officer Timothy Hearn told reporters then.

Imperial did not raise the possibility of escalating costs at that time, although yesterday it said there are several factors exerting "upward pressure" on the pipeline's price tag, including:

- The cost of possible regulatory conditions;
- The expense of any construction delay resulting from the slower-than-expected regulatory process;
- Rising prices for supplies, such as steel, diesel and labour;
- Higher-than-expected demands for access fees from northern aboriginal bands.

Any delay at the regulatory stage will ripple through the complex construction process and could be magnified if it causes the project to miss the 75-day window for construction in Canada's north. Imperial has said that a two- or three-month delay by regulators could push the project back a year.

For a project the size of the Mackenzie pipeline, any effort to make up that time during construction would be costly, although Imperial spokesman Hart Searle said it would be difficult to do so given the short construction season.

The environmental review was halted in February, with the consortium backing the project asked to provide more information to supplement its 6,500-page report. Mr. Hearn said Imperial has been asked to respond to 3,000 additional questions, a number of which overlap or make no sense.

Shell's airing of its concern over the timing and cost of the Mackenzie project came in its first-quarter earnings report.

Profit in the quarter rose to $417-million from $368-million a year earlier while cash flow jumped to $654-million from $552-million. Revenue rose to $3-billion from $2.5-billion a year earlier, with the largest increase coming in Shell's oil products division, which includes its retail operations.

The change in earnings was largely attributable to Shell's use of non-capital losses from a company it acquired in the fourth quarter of 2004, leading its corporate unit to a $60-million profit in the quarter just ended versus a $2-million loss a year ago.

Shell rose $1.25 to $86.90 on the Toronto Stock Exchange yesterday.

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