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 Mackenzie Gas Project

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Via Courier and E-mail

National Energy Board
 444 Seventh Avenue SW
 Calgary, AB T2P 0X8

Joint Review Panel for the Mackenzie Gas Project
 P.O. Box 2412
 Inuvik, NT X0E 0T0

Attention: Mr. Michel Mantha
Secretary

Attention: Ms. Paula Pacholek
Panel Manager

Re: Mackenzie Gas Project
Project Cost Estimate and Schedule Update

This letter fulfills a commitment to provide the National Energy Board (NEB) and Joint Review Panel (JRP) with an updated project cost estimate and schedule for the Mackenzie Gas Project, and identifies adjustments and refinements to improve the project and respond to community concerns.

Project Cost Estimate

Table 1 summarizes the updated cost estimates for the Mackenzie Gas Project components.

Table 1: Capital Expenditures - \$Millions, 2006 (Cdn)

Project Component	Initial	Future	Total
Anchor Fields			
- Taglu	1,800	750 ¹	2,550
- Parsons Lake	1,200	350 ¹	1,550
- Niglintgak	800		800
- Sub-total	3,800	1,100 ¹	4,900
Mackenzie Gathering System	3,500		3,500
Mackenzie Valley Pipeline	7,000	800 ²	7,800
Total	14,300	1,900	16,200
Note: 1. Infill wells and compression. 2. Loon River North and River Between Two Mountains compressor stations and Trout River heater station.			

This updated cost estimate incorporates current data on the costs of key components for the Mackenzie Gas Project, including steel, construction equipment, fuel and labour. Costs for these components are very different today than a few years ago, when the previously filed project costs were estimated. Other factors contributing to higher cost estimates for the Mackenzie Gas Project include an improved understanding of the costs for developing extensive infrastructure in remote areas in the North and additional costs associated with environmental and regulatory reviews.

Project Schedule

The schedule for the Mackenzie Gas Project has been updated to reflect the current outlook for the regulatory review process. A summary schedule for the five project components is shown in Figure 1. The revised schedule reflects the earliest possible start up and assumes that:

- the Certificate of Public Convenience and Necessity is received in 2008 and the remaining approvals and authorizations are received during 2009
- construction activities begin in the summer of 2010
- project start-up activities are completed in 2014

The proponents will make a final decision on whether or not to proceed with the proposed project when the regulatory process is complete. Timely actions by all parties, including the proponents, governments and regulators, will be required to achieve this schedule.

Project Adjustments and Refinements

Although the facilities to be constructed for the project remain the same, and the construction schedule still encompasses four winter seasons, the updated project cost estimate and schedule incorporate adjustments and refinements to planned construction activities. These changes are in response to upward cost pressures and community concerns. These adjustments and refinements are expected to further mitigate potential adverse project impacts and enhance project benefits.

To address upward cost pressures, project plans have been adjusted to:

- reduce peak winter construction labour and camp needs by installing the pipeline more evenly over three full winter seasons
- defer installation of the Loon River North and River Between Two Mountains compressor stations and the Trout River heater station until additional shipping commitments are received. (The deferral is assumed to be three years).
- construct the Inuvik area facility in larger modules that are transported to the site via the 'over the top' route by ocean and river barge

Refinements that address community concerns include:

- relocating the Great Bear River compressor station to the east side of the river
- relocating the Trout Lake pipeline camp out of the K'e'otsee watershed to the site of the Trout River heater station
- eliminating the need for module assembly and an associated camp at Hay River

Forward Steps

The following additional information is being prepared for submission to the NEB and JRP:

1. Later this month, updated cost and tolling information will be filed in accordance with NEB filing requirements.
2. In May 2007, an update of the project, describing project adjustments and refinements, will be submitted to the NEB and JRP.
3. Also in May 2007, an assessment of the biophysical and socio-economic impacts affected by these changes will be filed with the JRP. As indicated earlier, these adjustments and refinements are expected to further mitigate potential adverse project impacts and enhance project benefits.

The project proponents understand that, following the receipt of the additional information, the NEB and JRP may wish to consider providing parties the opportunity to clarify their understanding of these updates through a round of written information requests and, possibly, scheduling a hearing focused specifically on the updates. With respect to the JRP process, the proponents believe that, although any such hearing should precede the hearing on Recommendations and the hearing on Net Contributions and Closing Remarks, other remaining topic-specific hearings could proceed before the updated information has been received and reviewed.

If you have any questions about this update, please call me at (403) 237-2864.

Yours truly,

(Original signed by)

R.D. (Rick) Pawluk
Manager, Regulatory Affairs

Encl.

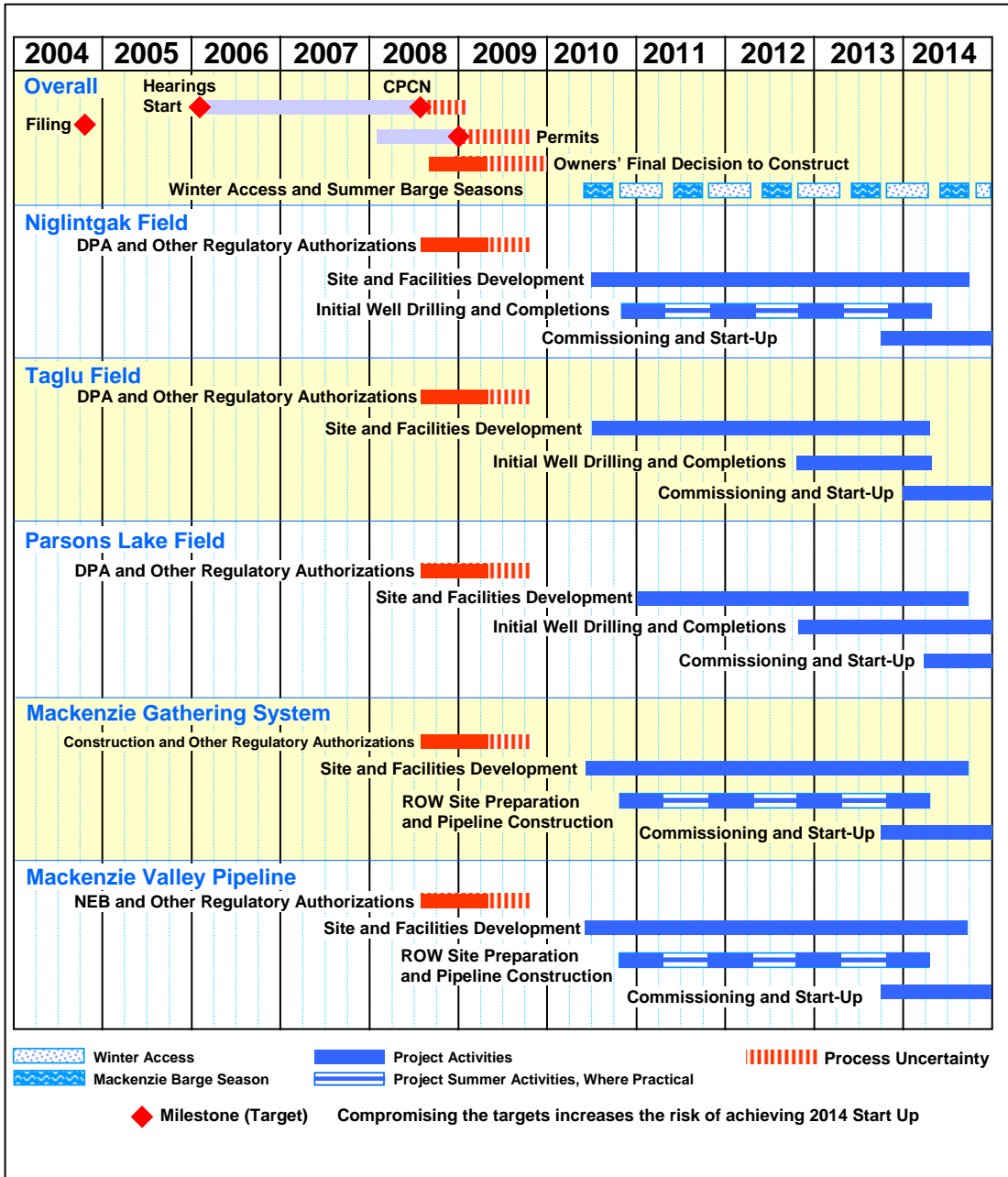


Figure 1 - Mackenzie Gas Project Summary Schedule