

## PROJECT DESCRIPTION AND STATUS

### 1. Overview:

The Kitimat LNG Terminal project is a proposal to construct and operate an LNG terminal to liquefy natural gas produced in Western Canada for export to the markets in the Asia Pacific region. The Kitimat LNG Terminal (as more particularly described in Section 3 of this Appendix) will be located at Bish Cove near the Port of Kitimat, British Columbia.

The Kitimat LNG Terminal project will include natural gas delivery, liquefaction, LNG storage and LNG send-out facilities including marine off-loading. The Kitimat LNG Terminal project also includes an approximately 14 kilometre pipeline that will connect the Terminal to the PTP.

PTP LP will transport gas on PTP from the Spectra BC pipeline at Summit Lake (Spectra Station 4a) to the Kitimat LNG Terminal. The PTP system and PTP LP are described further in Section 5 of this Appendix. This direct connection to Spectra's system provides access to gas supply throughout the Western Canadian Sedimentary Basin ("WCSB").



## 2. Project History:

Kitimat LNG Inc. (“KLNG”), a wholly owned subsidiary of Galveston LNG Inc., (“Galveston”) actively developed the Kitimat LNG Terminal and PTP from 2004-2010, including undertaking extensive community and First Nations consultation as well as conducting provincial and federal government environmental review processes. The project was originally proposed to be an import regasification terminal. However, due to changing market conditions, the project was revised to be an export terminal.

On August 18, 2004 KLNG applied to the British Columbia Environmental Assessment Office (“BCEAO”) for a provincial environmental assessment (“EA”) certificate for an LNG import, regasification and send-out terminal near Kitimat, British Columbia. This application also provided the basis for information required for a federal comprehensive study and report by the responsible authorities of Transport Canada, Environment Canada and Indian and Northern Affairs Canada (collectively, the “Responsible Authorities”). The BCEAO issued a provincial EA certificate on June 1, 2006 and on January 25, 2007 the Responsible Authorities made the decision to allow the project to proceed pursuant to the *Canadian Environmental Assessment Act* (“CEAA”). A copy of the Assessment Report can be found at:

<http://www.ceaa-acee.gc.ca/050/documents/14504/14504E.pdf>

Subsequently, KLNG applied to provincial and federal regulators for conversion of the import terminal into a LNG export terminal based on supplemental EA information. KLNG was informed on December 10, 2008 that the revised project did not require a new federal EA. An amendment to KLNG’s provincial EA certificate was received on January 9, 2009. A copy of the BCEAO decision note approving the amendment can be found at:

[http://a100.gov.bc.ca/appsdata/epic/documents/p244/1231800776643\\_4c821f7e48271ab0d90f83f21215996cef125678161f08c705af5f6e2e9b5e1c.pdf](http://a100.gov.bc.ca/appsdata/epic/documents/p244/1231800776643_4c821f7e48271ab0d90f83f21215996cef125678161f08c705af5f6e2e9b5e1c.pdf)

In January 2010, KM LNG purchased a 51% interest in the Kitimat LNG Terminal from KLNG. In May 2010, KLNG undertook a restructuring wherein it transferred 100% of its remaining 49% interest in the Kitimat LNG Terminal to Kitimat Partnership (“Kitimat Partnership”), an Alberta general partnership owned by KLNG (99%) and a wholly-owned subsidiary of KLNG, Kitimat ULC (1%). Also in May 2010, EOG and Galveston entered into an arrangement by which EOG, through its wholly owned subsidiary company, EOG Resources LNG Inc., agreed to acquire the shares of Galveston and thereby acquire Kitimat Partnership’s remaining 49% interest in the Kitimat LNG Terminal (see Exhibit A). This transaction closed December 1, 2010.

On January 1, 2011 Kitimat Partnership and Kitimat ULC each underwent name changes. Kitimat Partnership changed its name to EOG Resources LNG and Kitimat ULC changed its name to EOG Resources LNG ULC. In addition, as a result of a series of amalgamations between December 30, 2010 to January 1, 2011, Kitimat LNG Inc.,

Galveston LNG Inc., EOG Resources LNG Inc. and EOG Resources Canada Inc. were all amalgamated and continued in the form of EOG Resources Canada Inc. On March 11, 2011, EOG Resources Canada Inc. and EOG Resources LNG ULC formed a new general partnership, EOG Resources Canada LNG, and the partnership interest of EOG Resources Canada Inc. in EOG Resources LNG was transferred to EOG Resources Canada LNG. On March 31, 2011, Encana acquired a 30% ownership interest in the Kitimat LNG Terminal and PTP. As a result of this transaction, the Kitimat LNG Terminal is currently owned by KM LNG (40%), EOG Resources LNG (30%) and Encana (30%). The Kitimat LNG Terminal:

- (a) **The Facilities:** The front end engineering design study for the Kitimat LNG Terminal is being commissioned for a two-train facility with each train capable of producing 5 MMt/y of LNG for a total of 10 MMt/y. Other facilities comprising the Kitimat LNG Terminal design include: two 210,000 m<sup>3</sup> LNG storage tanks with potential for future expansion; a 14 km long lateral pipeline to connect the terminal to the PTP; marine offloading facilities and ancillary facilities (“Other Facilities”). At this time it is anticipated that the trains will be installed in two phases: Phase 1 (2015) for the first train and Phase 2 (2017-2018) for the second train. The preliminary cost estimate for Phase 1 is \$3 billion. Because no further “Other Facilities” are required to support the second train, the preliminary cost estimate for Phase 2, which will double the capacity of the terminal, is estimated to be \$1.5 billion or 50% of Phase 1. There are expected to be cost efficiencies if construction of Phase 2 begins soon after commissioning Phase 1. Therefore it is anticipated that there will be a significant economic incentive to accelerate the timing of Phase 2. The actual timing will depend on market demand conditions, results of the engineering studies and the ability to obtain all necessary approvals in a timely manner. KM LNG forecasts significant expenditures will be made in 2011 for preliminary work such as the engineering studies and site preparation.

On March 4, 2011, KM LNG awarded KBR, Inc. the Front End Engineering and Design contract for the terminal. KBR is recognized internationally as an industry leader in LNG developments and brings extensive experience to the Project.

- (b) **Location:** The Kitimat LNG Terminal will be located at Bish Cove near Kitimat, British Columbia, Canada. Kitimat is a natural choice for an LNG terminal. There is a deep, active channel for shipping, and access to existing pipeline infrastructure in the Western Canadian Sedimentary Basin.

The location is on the Bees Indian Reserve #6 which has been designated for industrial park use. The use of this site for the project has received the support of the Haisla First Nation and with that support, KM LNG and the Minister of Indian Affairs and Northern Development (“INAC”) entered into a long-term lease for the Kitimat LNG Terminal on the Bees Indian Reserve #6 in November 2010.

Below is an artist's rendering of the terminal.



- (c) **Regulatory Framework.** The Kitimat LNG Terminal is situated on federal reserve lands. INAC, KM LNG and the Haisla Nation have approached the British Columbia Oil and Gas Commission (“BC OGC”) to be the regulator of the Kitimat LNG Terminal and the BC OGC has expressed a commitment to regulate the Kitimat LNG Terminal. Regulations under the *First Nations Commercial and Industrial Development Act*, S.C. 2005, c. 53, (Canada) (“FNCIDA”) provides a potential statutory basis for the BC OGC to regulate the Kitimat LNG Terminal. The process for INAC, the Haisla Nation and the Province of British Columbia to commence the negotiation of a regulation pursuant to FNCIDA has been approved and initiated. In the interim, and until the FNCIDA regulation is in force, the Kitimat LNG Terminal will be regulated to the extent applicable, as if it were located on provincial Crown land by the BC OGC pursuant to a voluntary regulatory agreement among KM LNG, BC OGC, INAC and the Haisla Nation.

**3. Current Ownership of Kitimat LNG JV, the Kitimat LNG Terminal, and Governing Agreements:**

*Kitimat LNG JV*

KM LNG is an operating general partnership between Apache Canada Ltd. (“Apache”) (99.9%), general partner and Apache’s wholly owned subsidiary, Apache Canada KM ULC (0.1%).

Apache is a corporation incorporated under the *Alberta Business Corporations Act* and a wholly owned subsidiary of Apache Corporation. Apache Corporation is a public company incorporated in Delaware with a current market capitalization of over \$34 billion. Apache Corporation is headquartered in Houston, Texas, and maintains petroleum exploration and production activities in six countries worldwide. For further information on Apache see <http://www.apachecorp.com/index.aspx> and <http://www.apachecorp.com/Operations/Canada/index.aspx>.

As discussed above in Section 2 of this Appendix 2, EOG Resources LNG is an Alberta general partnership between EOG Resources Canada LNG (99.99%) and EOG Resources Canada Inc.’s wholly-owned subsidiary, EOG Resources LNG ULC (0.01%). EOG Resources Canada LNG is also, indirectly, a wholly-owned subsidiary of EOG Resources Canada Inc. which is a Canadian subsidiary of EOG Resources, Inc. EOG Resources, Inc. is a public company incorporated in Delaware with a market capitalization currently over \$23 billion. EOG Resources, Inc. is headquartered in Houston, Texas and maintains petroleum exploration and production activities and proved reserves in five countries worldwide. For further information on EOG see <http://www.eogresources.com/home/index.html>.

Encana Kitimat LNG Ltd. is an Alberta corporation and a wholly owned subsidiary of Encana Corporation. Encana Corporation is a public company incorporated under the *Canada Business Corporations Act*, having its head office in Calgary, Alberta. Encana is a leading North American natural gas producer with production of about 3.3 billion cubic feet per day equivalent. Encana has a market capitalization of about \$25 Billion. For further information on Encana see <http://www.encana.com>.

As previously indicated, KM LNG owns a 40% participating interest in the Kitimat LNG JV, EOG Resources LNG owns 30% and Encana owns the remaining 30% participating interest in the Kitimat LNG JV.

*Kitimat LNG Terminal*

Exhibit A to this Appendix is a schematic of the current ownership structure of the Kitimat LNG Terminal.

*Governing Agreements*

The key governing agreements between the Terminal Owners are a Joint Operating Agreement and a Joint Marketing Agreement. The key relevant provisions are as follows:

(a) Joint Operating Agreement between the Terminal Owners:

- i. Capacity rights are equal to ownership interest;
- ii. Operating Capacity is prorated on any given day;
- iii. Each Terminal Owner can use other Terminal Owners' unutilized capacity on an interruptible basis provided tolls are agreed to. Use of unutilized capacity on a firm basis is at the discretion of the capacity holder. Each party has a right of first refusal ("ROFR") in respect of any third party offers for unutilized capacity;
- iv. LNG output is prorated on the basis of natural gas input; and
- v. KM LNG as operator is required to obtain all necessary permits and licences for the facility operations of the facility as agent for all users (which would include owners and tolling parties) including a licence to export the LNG.

(b) Joint Marketing Agreement between the Terminal Owners:

The Terminal Owners will jointly market and sell according to their respective ownership interests, and:

- i. It is anticipated that each Terminal Owner will enter a Gas Sale & Purchase Agreement in its own name with each common buyer;
- ii. Each Terminal Owner will have a representative on a marketing team with KM LNG, as operator, being the coordinating marketing leader; and
- iii. It is anticipated that each cargo will be marketed on a commingled basis such that each cargo will contain LNG owned by all Terminal Owners.

**4. PTP Ownership and Details:**

At the time this application was originally filed in December 2010, PTP was directly or indirectly owned by Pacific Trails Pipeline LP ("PTP LP"), which in turn was held 50% by Pacific Northern Gas Ltd. ("PNG"), a provincially regulated pipeline utility, 25.5% by Apache Canada Ltd., and 24.5% by EOG Resources Canada Inc. On March 2, 2011 Apache Canada Ltd. ("Apache") and EOG Resources Canada Inc. ("EOG") acquired PNG's entire interest in the PTP. On March 31, 2011 Apache and EOG each partially



sold interests to Encana, the effect of which is that Apache, EOG and Encana are now owners in the KM LNG Terminal and the PTP. Apache holds a 40% interest in PTP LP, and EOG and Encana each have 30% interests in PTP LP. The First Nations Limited Partnership (“FN LP”) also has rights to acquire an equity position in PTP LP. Attached as Exhibit B to this Appendix is a schematic of the current ownership structure of PTP.

The PTP system that PTP LP will construct will be approximately 463 kilometres of 914 mm (36-inch) pipe between the Spectra Station 4a near Summit Lake, BC to the Kitimat LNG Terminal. The estimated cost of the PTP project is \$1.1 billion. The PTP is being designed to transport up to 1.4 Bcf/d. Each of EOG, Apache and Encana will enter into transportation agreements with PTP LP.

On October 11, 2007, PTP LP filed an application with the BCEAO for an EA certificate for the PTP project. This project also triggered a screening under the federal CEAA. The BCEAO issued an environmental assessment certificate for the PTP project on June 26, 2008 which can be found at:

[http://a100.gov.bc.ca/appsdata/epic/documents/p270/1215023088349\\_8e248a8d30d8aaca0c26ad7c4c149fc0d93dba1c2720.pdf](http://a100.gov.bc.ca/appsdata/epic/documents/p270/1215023088349_8e248a8d30d8aaca0c26ad7c4c149fc0d93dba1c2720.pdf).

This was followed by a decision by Fisheries and Oceans Canada and Transport Canada on March 10, 2009 to allow the PTP project to proceed pursuant to the CEAA.

The PTP was originally intended to be an integral part of PNG’s regulated pipeline system and subject to toll regulation by the British Columbia Utilities Commission (“BCUC”). An application for a Certificate of Public Convenience and Necessity (“CPCN”) from the BCUC was anticipated to be filed by PNG in early 2011. However, as a result of Apache and EOG acquiring PNG’s interest in the PTP, all capacity on the PTP will now be for the sole purpose of delivering natural gas processed at the KM LNG Terminal and the PTP is no longer contemplated to be toll regulated or require CPCN approval from the BCUC, as the pipeline will not be under the jurisdiction of the BCUC.

KM LNG is advised that a Pipeline Permit application to the BC OGC is expected to be filed no later than Q1 2012.

**5. Agreements and Approvals Pending or Required:**

<b>Item</b>	<b>Current Status</b>	<b>Target:</b>
Site Lease	Band Council Resolution Received Haisla Nation Ratification Vote Received Lease Executed November, 2010	Completed
Foreshore Licence of Occupation	Received Foreshore Lease Executed	

**Kitimat LNG NEB Export Licence Application**

## Appendix 2 – Project Description and Status

Revised May 16, 2011

Page 8 of 8

<b>Item</b>	<b>Current Status</b>	<b>Target:</b>
Foreshore Lease	November, 2010	Completed
Haisla Benefits Agreement	Executed November 2010	Completed
PTP FN Benefits Agreement		1Q 2011
Gas Transportation Reservation Agreement		1Q 2011
Voluntary Regulatory Agreement	BC OGC Commitment Received	1Q 2011
Export Licence	Application Filed	3Q 2011
Engineering Studies	Expected to commence 4Q 2010	3Q 2011
TermPol	Expected to commence 1Q 2011	4Q 2011
Gas Sales & Purchase Arrangements	In Negotiations	4Q 2011
Final Investment Decision		4Q 2011
PTP Pipeline Permit from BC OGC	Application Targeted to be Filed Q1 2012	
Usual Course of Business Permits Required Prior to Construction & Operation	Ongoing through 2010 - 2014	4Q 2014
Construction commences		1Q 2012
First export		2Q 2015