

SUBMISSION OF BANTREL CO. TO ALBERTA ROYALTY REVIEW PANEL

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Calgary, Alberta

Presented by Paul J. Lovell,
Chairman, President & CEO of Bantrel Co.

INTRODUCTION

Bantrel Co. is one of the leading engineering, procurement and construction (EPC) contractors in Alberta's oil sands industry. Bantrel is very proud to be a key player in the success of Alberta's oil sands projects.

Bantrel operates from headquarters in Calgary, with offices in Edmonton and Toronto. Bantrel has grown over the past 25 years from a handful of employees to the present day population of over 4,000. Most of this growth has been in the last five years, during the resurgence of the oil sands industry.

ALBERTA'S EPC BUSINESS AND THE OIL SANDS INDUSTRY

Bantrel is just part of a huge EPC business in Alberta, employing many thousands of people, that is sustained by the oil sands industry. The growth of the last few years has developed our business to world class, both in quality and size. The combined engineering capability of Calgary and Edmonton, for major oil related projects, rates as one of the top three in the world, with the likes of Houston and London. Relative to total population, it is the largest in the world.

This EPC business is provided with equipment, materials and services by numerous companies in Alberta, and the rest of Canada, which in turn employ many thousands of people whose jobs are a direct result of the thriving oil sands industry.

Bantrel is an example of a success story that the Alberta government has enabled by a stable fiscal climate and responsible oil sands royalty regime. We have observed the

impact of the royalty regime on the current success of what historically has been a very risky, capital intensive, marginal return business. The present royalty regime has been directly responsible for the successful oil sands industry we have in this Province today and should have in the future.

It is worth recalling the history of our business in Alberta. When the original Suncor and Syncrude plants were built in the 60's and 70's most of the engineering was done outside of Canada, primarily in the U.S. By 1980, Alberta had developed its own engineering capability to the point that most of the mega-projects being planned at that time would have been engineered in the Province. Thousands of people had been attracted to the industry from within Alberta, from the rest of Canada and from all four corners of the world. Then came the oil price crash of 1981 and the cancellation of projects. The Alberta engineering business collapsed overnight, there were huge lay-offs, and many had to return from whence they came, most with a sour taste in their mouths. It has taken over 25 years for our business to recover from that crash, and to reach the world class status that it has today. We are now fearful that history will repeat itself, albeit for different root causes.

CURRENT PRESSURES ON THE OIL SANDS INDUSTRY

There are three factors that we see are contributing to the current success of the Alberta oil sands business:

1. The proven reserves for the oil sands deposits;
2. Healthy oil prices; and
3. Low political risk coupled with a stable royalty and fiscal regime.

We see four factors that are putting the current successful oil sands business at risk:

1. High capital costs;
2. Shortage of labour and materials;

3. Environmental regulations resulting in higher costs; and
4. Changes to the federal tax regime.

As one of the major contractors building these oil sands facilities, we are experiencing the pressures from these factors. The success of these projects within the next 3 years will largely drive whether any new projects will be sanctioned by owners in the future. These economic factors, and the ingenuity of the oil companies and their suppliers, will determine which projects get built,

If the Province decides to add a fifth factor to the cost equation by altering the royalty regime, there is a genuine risk that most current and future projects will not be economically sustainable, and history will repeat itself.

IMPACT OF THE GLOBAL MARKETPLACE

We should be mindful of the global market place that the oil and gas business in this Province is part of. As an EPC contractor, we are part of the global competition to develop billions of dollars of projects all over the world. Many of the same owners we see developing oil sands projects in Alberta are developing projects of similar magnitude worldwide and make their investment decisions based on the global market place.

Most of the jobs provided by Bantrel to Albertans are high quality, white collar engineering and related technical specialty jobs. It is exactly these types of jobs that many jurisdictions wish to export from Alberta to staff their own projects. We know this first hand as we are presently experiencing all of the pressures and challenges of competing for talent in a global market place.

When we look at the global marketplace, all projects are being affected by increasing costs and labour and material shortages. Environmental pressures on projects vary widely by jurisdiction. Any decision made to increase royalties will affect Alberta's competitive advantage in the global marketplace.

CONCLUSION

As Albertans, we all want the Province to receive its fair share from the resources we have. Bantrel is an excellent example of how a stable, incentive based royalty regime has translated into world class jobs right here in Alberta and the taxes, both corporate and personal, that are part and parcel of a fair share formula that works well.

We respectfully submit that the Province proceed very cautiously with this royalty review. We are facing many uncertainties to the future, ongoing success of the oil sands industry in Alberta. It is imperative that Alberta remain a globally competitive market for the massive investments required to build the oil sands industry. It is also imperative that the royalty regime be viewed as stable and predictable. We cannot let Alberta become a business climate where investors do not have the confidence that the risks they take in building the oil sands projects will be subject to a reasonable profit and reward. There are many jurisdictions clamouring for the success of Alberta's oil sands industry. It has taken over forty years for Alberta to develop a viable oil sands industry. Let's not lose it!

RESPECTFULLY SUBMITTED BY PAUL J. LOVELL ON BEHALF OF BANTREL CO. THIS 22ND DAY OF MAY, 2007.