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February 12, 2008

VIA EMAIL: boardsec@oeb.gov.on.ca

Kirstin Walli
Board Secretary
Ontario Energy Board
2300 Yonge Street
27th Floor, Suite 2701
P.O. Box 2319
Toronto, Ontario
M4P 1E4

Dear Ms. Walli:

**Re: Natural Resources Gas Limited and Integrated Grain
Processors Co-Operative Inc.
Our File No.: 37489**

We are counsel to Natural Resource Gas Limited ("NRG"). We received, late on Friday afternoon, a copy of the February 8 letter from counsel for Integrated Grain Processors Co-operative Inc. ("IGPC").

The Pipeline Cost Recovery Agreement dated as of January 31, 2007, ("PCRA"), provides as follows:

"Article IX-Dispute Resolution

In the event of any dispute arising between the Parties regarding the subject matter of this Agreement, then the Parties shall negotiate in good faith to resolve such matters.

In the event the Parties are unable to resolve a dispute, then either Party may refer the matter to the OEB for resolution."

NRG has been engaged in ongoing discussions with IGPC to move the construction of the pipeline forward in a timely manner. One outstanding issue has been IGPC's refusal to pay NRG's invoices. NRG made it absolutely clear to IGPC that if this dispute cannot be resolved,

NRG will comply with the process set out in the PCRA to resolve a dispute. This dispute has no effect on the construction process.

Article IX of the PCRA contemplates a dispute resolution process. IGPC remains willing to have the OEB arbitrate the dispute concerning NRG's invoice dated January 2, 2008 and IGPC's refusal to pay invoices outstanding.

Progress on Construction

The contractual obligations between IGPC and NRG are set out in the PCRA. NRG is at no time to be placed at risk for the costs of constructing the pipeline. In accordance with that fundamental principle, the PCRA was carefully negotiated and agreed to so as to ensure that NRG will at all times be fully secured for all construction costs. As a result, there was an agreed amount called the "Aid-to-Construct" which was required to be paid by IGPC to NRG as and when NRG was required to incur any costs or liability in constructing the pipeline. IGPC has acknowledged this by paying previous invoices when rendered by NRG.

However, we believe that due to numerous delays in IGPC's attempts to satisfy their financiers, the timelines contemplated in the PCRA have unfolded differently than expected. The initial Letter of Credit, which was to be delivered by IGPC prior to the entering into a construction contract, has not yet been delivered. As a result, NRG has been placed in a position where it is required to incur significant costs to obtain materials and components for the pipeline in order to ensure the in-service date requested by IGPC, before IGPC has delivered the required security to NRG for those costs and liabilities.

In those circumstances, NRG has asked IGPC to pay to NRG all amounts that NRG is required to pay to third parties, or to pay those amounts directly to those third parties as and when required, so that the timelines for completion are not placed in jeopardy.

(a) Purchase of Pipe

This process was followed in dealing with the purchase of pipe from Lakeside Steel Corporation. The amounts were requested by NRG after obtaining competitive quotes. Full disclosure of the process of obtaining competitive quotes was provided to IGPC. IGPC then provided the required payments to NRG. NRG forwarded the amounts to Lakeside Steel Corporation and the required pipe was ordered in time to facilitate the in-service date requested by IGPC.

(b) Union Gas Aid-to-Construct

When Union Gas required a letter of credit, IGPC refused or failed to pay those amounts either to NRG, so that it could forward the money directly to Union Gas, or to Union Gas directly. Instead, IGPC began to demand that NRG agree to a series of amendments to the PCRA. NRG responded that it was not prepared to agree to any amendments required by

IGPC's lenders for their own purposes. The demands of IGPC's lenders are independent of IGPC's obligations owed to NRG under the PCRA.

In a good faith attempt to resolve IGPC's issues with its lenders, NRG provided IGPC with a letter specifically confirming what IGPC was demanding (copy attached). Despite this confirmation, IGPC has refused or failed to pay those amounts owing to Union Gas, thereby placing the timely construction of the project in jeopardy solely as a result of its relationship with its lenders.

(c) Customer Station

NRG has obtained, through its construction manager AECON, a quote for the purchase of a turn-key Ethanol Customer Station. NRG forwarded the quote to IGPC. The quote contained a deadline for the issuance of a purchase order and a letter of credit to secure a portion of the amounts required to construct the Station. To date, IGPC has failed to issue the purchase order or provide the letter of credit to Lakeside Controls, and has failed to provide NRG with the required funds or a letter of credit so that NRG would be in a position to issue the purchase order and pay the required security.

The NRG Letter of Credit

The request for a letter of credit was provided at the specific request of IGPC. The PCRA has a specific mechanism to ensure that, in the event that NRG defaults on its obligations to purchase natural gas, NRG would be fully secured for the unrecovered capital cost of constructing the pipeline and all related expenses.

In providing a proposal to IGPC for a letter of credit, NRG was simply attempting to ensure that it was fully secured for all of the costs it has incurred in constructing the pipeline. The terms and conditions proposed for the letter of credit seek only to ensure the security and economic protection for all of its stakeholders that IGPC agreed to provide to NRG in the PCRA.

To date, IGPC has failed to provide NRG with any assurance that it is financially capable of completing the project. The failure of IGPC to:

- (a) pay the \$200,000 to Union Gas on a timely basis; and
- (b) respond to Lakeside Control's requirement for a purchase order and security raises significant concerns about IGPC's financial health.

The progress has been further hampered by IGPC's refusal to commit to a specific in-service date. In May 2007, IGPC and NRG agreed to an in-service date of August 1. NRG proceeded on the basis that the proposed in-service date would be August 1, 2008. By letter dated January 27, 2008, IGPC proposed to set anticipated in-service dates in the tender package

at June 9 and July 14, proposing that both dates be included. The change of in-service date was a result of faster than expected construction of the plant.

While NRG is willing and able to work cooperatively towards completing the project as soon as possible, NRG cannot be responsible for changes in the in-service date caused by changes in IGPC's construction schedule or other timelines. The changes in the in-service date will cause increased construction costs, and significantly complicates the process of dealing with subcontractors and advance purchases of components and raw materials.

Article IX of the PCRA, and specifically section 9.1 thereof, requires the parties to negotiate in good faith to resolve any dispute regarding the subject matter of the PCRA. NRG was continuing those negotiations and remains willing to do so.

NRG has attempted to move the process forward to the best of its abilities and will continue to do so. NRG respectfully submits that it is premature for IGPC to refer this matter to the OEB. IGPC has a specific obligation under the PCRA to negotiate in good faith towards a resolution, and the OEB should require IGPC to comply with that obligation before agreeing to act as arbitrator of any dispute.

Yours very truly,


Lawrence E. Thacker

LET/ns/rl/kk
Encl.

bcc Mark Bristoll
Naomi Loewith

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January 31, 2008

VIA EMAIL

Dennis M. O'Leary
Aird & Berlis LLP
BCE Place, 181 Bay Street
Suite 1800, Box 754
Toronto, ON M5J 2T9

Dear Mr. O'Leary:

**Re: Natural Resources Gas Limited and Integrated Grain
Processors Co-operative Inc.**

I have reviewed your proposed letter agreement (copy attached) amending the Pipeline Cost Recovery Agreement ("PCRA").

My client, Natural Resources Gas Limited ("NRG"), does not understand why it is necessary to amend the PCRA before your client IGPC Ethanol Inc. ("IGPC"), can comply with its obligations to pay to Union Gas the amounts that Union Gas requires.

Certainly, the first tranche of what Union Gas requires is part of the Aid-to-Construct as contemplated in the PCRA. As I understand it, the balance of what Union Gas requires would also be included in the Aid-to-Construct. To the extent that some or all of that second tranche represents amounts that were contemplated to be included in the Delivery Letter of Credit, they will be adjusted as and when the amount of such adjustments are known. This adjustment process is expressly contemplated in the PCRA.

As a result, NRG does not understand why the PCRA is required to be amended before IGPC can pay to Union Gas, or to IGPC, exactly what Union Gas requires for its portion of the work on the pipeline. Given that the Delivery Letter of Credit has not been provided, the amounts Union Gas requires would be part of the Aid-to-Construct and can be paid by IGPC under the PCRA without any need for amendments.

As I previously explained, NRG is not prepared to amend the PCRA simply because of new demands now imposed upon IGPC by its lenders. If the PCRA is to be amended, NRG has other issues that it would like to revisit in the PCRA. All amendments to the PCRA should be dealt with at the same time.

However, to ensure that construction proceeds without any delay, NRG is prepared to confirm to you that whatever amounts IGPC pays directly to Union Gas will be treated as part of the Aid-to-Construct that IGPC is required to pay to NRG under the PCRA, or as part of the amounts originally contemplated to be secured by the Delivery Letter of Credit. All of these amounts are subject to adjustment upon final reconciliation of costs as contemplated under the PCRA. We confirm NRG's understanding that any payments or financial assurance provided by IGPC directly to Union Gas or any other third party would reduce IGPC's obligation to provide such payment or financial assurance to NRG either under the Aid-to-Construct or the Delivery Letter of Credit.

With respect to the issue of invoices provided to IGPC by NRG on January 2, 2008, my instructions are to confirm that if the issues cannot be resolved by agreement, the process set out in the PCRA for dispute resolution will be followed.

NRG does not understand why the amounts required by Union Gas cannot be paid immediately by IGPC as they clearly are part of the Aid-to-Construct as contemplated in the PCRA. The confirmation that you have requested is expressly provided in this letter. NRG will not be responsible for any delays caused by IGPC's delays in paying Union Gas the amounts it requires.

Yours truly,

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Lawrence E. Thacker

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