

OPI NEWSLETTER

THE VOICE OF THE ONTARIO OIL AND NATURAL GAS INDUSTRY

SUMMER 2017

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Encouraging responsible exploration and
development of the oil, gas, hydrocarbon
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2017 OPI Conference looks to the future

The 55th Annual Ontario Petroleum Institute Conference and Trade Show combined with the industry's Annual Golf Day to attract industry attendance from across Ontario and the United States.

The 2017 OPI Conference and Trade Show was held in conjunction with partnering sponsor the Ontario Oil, Gas and Salt Resource Library in Grand Bend, Ontario from May 24-26, 2017.

Ontario Oil Gas and Salt Resources Library, Partnering Sponsor



Jordan Clark, Manager

The popularity of the OPI Golf Day set the stage for "Exploring the Michigan Basin" a look forward on exploration and the industry's future. The program included an excellent line-up of presentations, a poster competition, and workshop that featured the geology of Southwestern Ontario and Michigan.

A video greeting from the Hon. Kathryn McGarry, Ontario Minister of Natural Resources and Forestry introduced a keynote address from Bob Delaney, the Parliamentary Assistant to the Ontario Minister of Energy on the development of Ontario's oil and natural gas resources.

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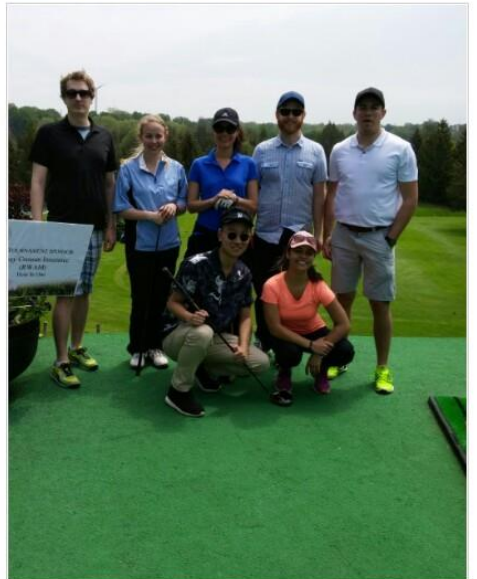
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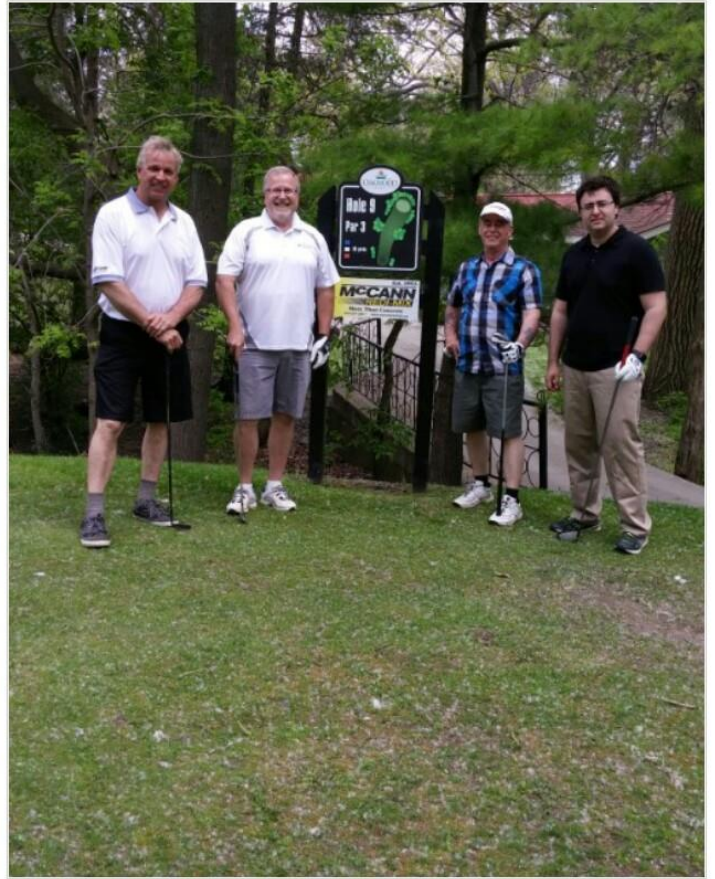
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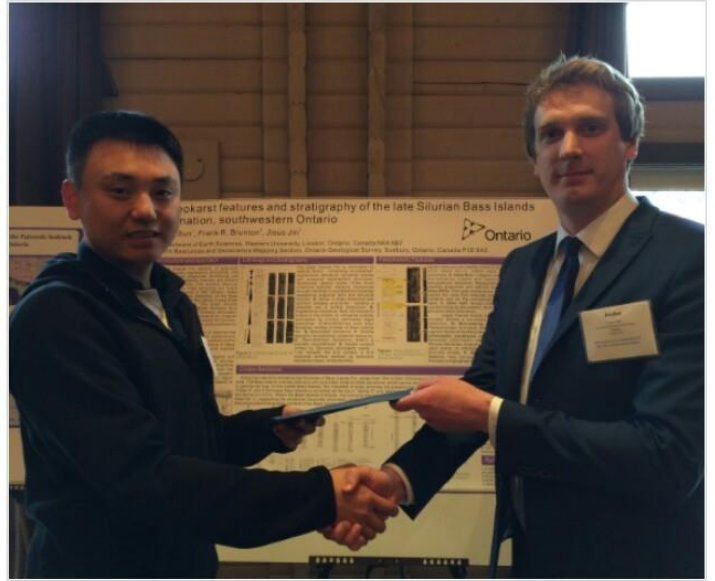
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The OPI has had a full schedule of activities to round out the first six months of 2017.

Two main events took place in May. The 2017 OPI Conference and Trade Show was successfully held in Grand Bend from May 24-26 with an excellent line-up of presentations on “Exploring the Michigan Basin”, and remarks from the Hon. Kathryn McGarry, Ontario Minister of Natural Resources and Forestry, and Bob Delaney, the Parliamentary Assistant to the Ontario Minister of Energy.

This year’s Annual OPI Golf Day was also held in Grand Bend a day before the Conference. Always a popular event close to 100 golfers enjoyed 18 holes of golf, a steak dinner, and an abundance of socializing with little interruption from Mother Nature.

The Board of Directors Committees, in particular, have been working on a series of matters in recent months. The Historical Producers Committee is involved in the application to have Oil Springs, Ontario declared a World Heritage site. The application has received more than 40 letters of support from interested parties from across Ontario, and Canada.

The Producers Committee has been in various meetings involving the 2017 Ontario Long-Term Energy Plan, and the \$100 Grant Program for delivering natural gas to underserved Ontario communities.

The Governance Committee is continuing its review of the OPI By-laws, looking at potential amendments that would be involved in a recommendation for changes that will enable the OPI to operate more efficiently as a not-for-profit organization. The Research, Education and Environment Committee has been invited to make a presentation at an upcoming Penn York Oil & Gas Association Conference.

The Tax Committee reported that no further action will be taken until an industry position on assessments is developed. There are a number of industry companies currently involved in actions on various tax issues.

The Membership Committee, in responding to concerns from members on the activities of the OPI, has proposed that a series of member information meetings be organized across Southwestern Ontario for the fall of 2017.

The OPI welcomed seven new members recently: Liz Sutherland and Candace Freckelton from the Oil, Gas and Salt Resources Library; Brian Main, Gedex Inc.; Chris Mayo, Union Gas Ltd.; Alan Leaver, Repsol Oil and Gas USA; Andrew Breeze, DNOW Canada ULC; and Robert Walsh, Geofirma Engineering Ltd.

The OPI-MNRF Hydrocarbon Sector Working Group along with various Sub-Groups have prepared preliminary reports on seven specific areas: suspended wells, inspector protocols, historical standards, well abandonment standards, well approval process, examiner protocols, and private gas well policy.

On the OPI Website www.ontariopetroleuminstitute.com - in an effort to provide members with added information you can now find the minutes of the Board of Directors meetings as well as advertising opportunities that are now available.

The Ontario Oil, Gas and Salt Resources Corporation reports that the 2016 Ontario Oil, Gas and Salt Resources Library Financial Statement reported a surplus for the year ending December 31, 2017. And by all accounts the Library is on track to have another very successful year as its revenue projections have exceeded expectations at mid-year.

Thank you to OPI Conference Chair Ian Colquhoun, Lorraine Fillmore and the Conference Committee for their work on the 2017 OPI Conference and the Golf Day.

A special thank you to the Ontario Oil, Gas and Salt Resource Library as the partnering sponsor for the 55th Annual OPI Conference and Trade Show.

Please enjoy this issue of the OPI Newsletter and contact me anytime at 519-630-4204 or at hughmoran@ontpetroleuminstitute.com.

Hugh Moran, Executive Director

OPI Talking Points

Ministry of Finance

The 2017 Ontario Budget included amendments to the Ontario Oil, Gas and Salt Resources Act with respect to the regulation of compressed air energy storage projects prescribed by the regulations, and of projects that involve the injection of substances into underground geological formations. The amendments are to sections 11, 13, 17, and 19. You can access the changes through the following links:

www.ontla.on.ca/web/bills/bills_detail.do?locale=en&Intranet=&BillID=4778

and

www.ontla.on.ca/web/bills/bills_detail.do?locale=en&Intranet=&BillID=4778#BK25

Michigan Oil & Gas Petroleum Conference

The OPI attended the 2017 Michigan Oil & Gas Petroleum Conference held in Traverse City, Michigan on April 20th. It was an opportunity to continue to build on the relationship with the Michigan Oil and Gas Association (MOGA) to promote Ontario exploration and to encourage MOGA members to attend the 2017 OPI Conference.

Thames-Sydenham Source Water Protection

The OPI has received an extension of its appointment to the Thames-Sydenham Source Protection Committee to June of 2018. The OPI has been on the Committee since its inception in the early 2000s to develop a source water protection plan as part of the Ontario Clean Water Act. With the plan now completed and moving to the implementation stage the Source Water Protection Committee is adjusting to reflect a decreased level of work required.

Federal Methane Regulations

Canada and the U.S. announced in the Joint Statement on Climate, Energy and Arctic Canada their intentions to reduce methane emissions from the oil and natural gas sector by 40-45% by 2025 relative to 2012 levels. Environment and Climate Change Canada will publish proposed regulations to reduce methane emissions from new and existing oil and gas sources in 2017. Regulations will be developed in collaboration with provinces/territories, Indigenous Peoples and stakeholders.

From The Newsroom

EAST COAST ENERGY TESTING SECOND WELL

At tidy well site next to reclaimed industrial lands outside of **Stellarton**, CEO **Julie Cohen** and VP **Arden Thompson** are in the midst of another leap forward for their coal-bed methane project.

Over the next few months, they'll be flaring from the **East Coast Energy Inc.** well, the second site on the outskirts of the industrial town where the company has produced test quantities of gas to gauge the quality and output of the reserves below.

It's a milestone for Cohen and Thompson, a veteran of the province's coal seams who spent his career with the handful of companies that have tried to produce gas from the black rock, which gave the town its name because of its star-like burning flame.

East Coast has arguably pushed the envelope the farthest, having two years ago flowed gas from a horizontal well it drilled at a site across the **Trans Canada Highway**, a major achievement in its ambition to become the province's first commercial onshore gas producer.

This second well, drilled 15 years ago by **Encana Corp.** next to a reclaimed dump as part of its work commitment in the province, was never tested in part because Encana was more focused on its offshore **Deep Panuke** play.

After a couple of ownership changes in the interim, East Coast inherited the untested well in 2009 when it acquired the coal-bed methane rights for a 22,000-acre area around Stellarton.

East Coast brought in contractors from **Alberta** last summer to finish the Encana well, a quiet campaign that produced favourable results that paved the way for the flaring this summer.

"We're like the turtle. Slow and steady wins the race," Cohen said, acknowledging it has been a long journey to this point.

She said she's not yet ready to put a firm timeline on when she aims to reach commercial production.



Heritage Gas's pipeline is just three kilometres away from the Encana well, and the utility and competitor **Irving Oil Ltd.** have trucks in the province that could transport production as compressed natural gas.

Cohen, who splits time between her home outside **Toronto** and a hotel room in Stellarton, has worked to build bridges in Stellarton (East Coast is a member of the local chamber of commerce) and explain coal-bed methane methodology to people within town.

Coal-bed reserves are not fracked with water. Gas is produced through a process called "desorption," essentially removing naturally occurring water from the underground coal seam to start a process whereby gas is released from the coal.

As East Coast progresses, the region's supply of natural gas is expected to become further challenged.

Encana and **ExxonMobil Corp.** have both started preparatory work to dismantle their offshore gas projects.

Exxon's Sable project, a pillar of the region's energy map since it started production in 1999, last year produced on average 126.5 million cubic feet per day.

Encana's Deep Panuke produced 58.3 mmscf a day, and many analysts expect the problem-plagued project could wind down around the same time as Sable.

Roughly 180 mmcf is consumed in the **Maritimes** on a typical winter day, but **Nova Scotia Power Inc.** can add another 70 mmscf on any given day if gas prices are right.

Reversed pipelines, bring in shale gas from **Pennsylvania** and **Ohio**, and the **Canaport LNG** import terminal near **Saint John** can pick up the slack, but hefty transportation fees could raise gas prices substantially within the next few years.

*Geoff Bird, Reporter
All Nova Scotia, June, 2017*

Folks, this is no way to run a country

There's a battle brewing between British Columbia and the federal government that could have an indelible impact on the future of Canada. It comes down to one question: Can Ottawa effectively exercise its responsibilities if the provinces refuse to recognize its authority on controversial issues?

The issue at hand is pipelines. Last fall, the Trudeau government approved Kinder Morgan's Trans Mountain expansion project, which will twin an existing pipeline along a route from Alberta to Burnaby, in Metro Vancouver. The decision came after a full review of the project by the National Energy Board.

In other words, Ottawa played by the rules and approved a project of the type that the Constitution places squarely in its jurisdiction: railways, canals, hydro lines, pipelines and other infrastructure that cross provincial boundaries.

Ottawa also has clear jurisdiction over seacoasts, navigation and shipping, which ties into issues that arise from the fact that the pipeline expansion will increase tanker traffic in Vancouver harbour and along the coast of B.C.

And Ottawa has sole jurisdiction over trade and commerce, which is what this is mostly about. Getting the crude from Alberta's oil sands – or any other Canadian product from any other landlocked part of the country – to coastal waters where it can be loaded onto boats and shipped to foreign markets goes to the heart of Canada's ability to be a successful trader.

On top of all that, there is a clause in the Constitution that gives Ottawa jurisdiction over projects that are "declared by the Parliament of Canada to be for the general Advantage of Canada."

So it's clear. Ottawa has authority over the Trans Mountain expansion project. That pipeline is critical to Canada's resource-based economy. And it appears to have the support of Canadians and British Columbians, who in polls last fall consistently backed Ottawa's decision to greenlight the project.

And yet it's not clear at all. British Columbia is poised to be governed by the New Democrats with the support of the Green Party; the two party leaders have promised to use "every tool" available to prevent the Trans Mountain expansion.

Those tools are considerable. If the NDP and Greens form government, they will be able to undertake a bureaucratic guerrilla war against the project.

The B.C. provincial government could collude with municipal governments to deny needed construction permits, which would cause delays and raise costs for Kinder Morgan.

They can also rescind the previous Liberal government's approval of the project and set new conditions on it. And they could side with the plaintiffs in the many court challenges, 19 and counting, brought by environmental groups, municipalities and First Nations, that claim that the federal approval process was flawed.

The NDP-Greens are also armed with political clout. They are positioning themselves as the "defenders" of B.C.'s coastal waters. And, by trying to block the export of crude oil, they claim to be on the side of the angels in the fight against climate change.

That's a tough combo for Prime Minister Justin Trudeau to punch against. He has promised that the coastline will be protected by strict rules that minimize the chances of a tanker going aground, but the possibility of a spill can never be reduced to zero.

And while there is a solid three-fold argument for building the pipeline – Canada has to continue to exist as a resource-based economy while it and the rest of the world transition away from carbon; oil sands crude will continue to be shipped even without a pipe, by rail; and pipelines are safer than rail – there is no question that the product it transports will ultimately contribute to greenhouse gas emissions.

There are a lot of green votes at stake for the Trudeau government in the Vancouver area. The NDP and Green members know it, and they will use it to their advantage. In the end, they could kill the project by forcing delay after delay, while Ottawa, paralyzed by a fear of alienating voters, stands by.

That must not happen. Mr. Trudeau should stick to his guns and see the project through. There is a principle at play. Simply put, one provincial government should not have a veto over Canadian trade because of its geography. This has to be a national decision – and that means the federal government and federal institutions.

As Alberta Premier Rachel Notley said last week, “We can’t be a country that says one of its two functional coastlines is only going to do what the people who live right beside it want to do.”

We would go further than that. Provincial parties should not espouse the use of clever delay tactics for the sole purpose of usurping the duly exercised authority of the federal government. Trans Mountain has the law and Parliament behind it. That may not please its opponents, but their displeasure doesn’t give them the power to undermine a valid federal decision.

*Editorial, Toronto Globe and Mail
June 5, 2017*

Remembering the sources of our wealth

Canada is the envy of the world in terms of our commitment to refugee rights, education, and universal health care and world-class infrastructure. The wealth of the human experience in our country underpins our status as one of the most desired destinations for immigrants the world over.

And yet, increasingly, I find myself asking: “What will be the continuing source of this societal wealth?” Most Canadians, including me, cherish the society we have been able to build; but, as with anything of value, the benefits come with costs. More and more, the debate about what we want in our future as a society is void of any discussion of the means to fund this future and the inevitable decisions and concessions that this funding entails.

Canada has a population of 36 million people, compared with 39 million in the state of California.

We are the 37th most populated country on Earth – behind countries such as Poland, Colombia and South Korea. And yet our land mass ranks second in the world – well behind Russia and just ahead of the United States. In other words, this is a really, really big country with very few people. Not typically an equation for great wealth creation.

And yet Canada is a member of the G7 – a collection of the most advanced economies on the planet. Inevitably, much of that status is a result of our sharing a border

with the world’s largest economy and the wealth arising from trade between the two countries. But the real source of our wealth as a country is quite simple: We are a small population sitting atop one of the world’s great bounties of resource wealth. And the extraction of this resource wealth – whether precious or non-precious metals, or hydrocarbons or water or wood – has underpinned the wealth of this region we now call Canada for hundreds of years.

Despite this reality and the wonderful benefits we have enjoyed as a society, the current political debate in this country decouples the notion of our wealth from a discussion of its source. Again, Canada is a rich country with an equally rich human experience because it has been highly adept at extracting wealth from the resource bounty upon which it sits. Period. End of story.

This discussion is especially poignant as we see intensified debate over the extraction of hydrocarbons, their transport to world markets and the implications for emerging-market opportunities such as liquefied natural gas. Factored into the mix is a discussion of our future in renewables and how Canada will play a part in the evolution of a non-carbon-based global energy economy. The later most assuredly represents the future but the former will remain relevant for decades to come. There is simply no need for, nor is this the time for a definitive either/or. How we as a country manage this transition will say much about our ability to continue to generate the wealth upon which we as a society depend. The implications of getting the transition wrong are dire and the dangers of ending up sitting in the self-congratulatory dark are very real. As the British say: “Mind the gap.”

Renewables such as solar and wind represent an attractive and viable source of energy and an industry in which Canadians can and should be world leaders; but this in no way precludes the continuing capitalization on the enormous wealth in oil and gas assets.

To say that production must be undertaken in a manner that is environmentally sound and with a reasonable construct for community consultation is to state both the obvious and the essential. And here our producers have been world leaders in developing and applying innovative technologies that lower both the cost and impact of extraction.

Again, responsibly capitalizing on the natural resource wealth this country has been blessed with has made possible our notion of a fair and prosperous Canada with

world-class health care, education and infrastructure among the obvious results.

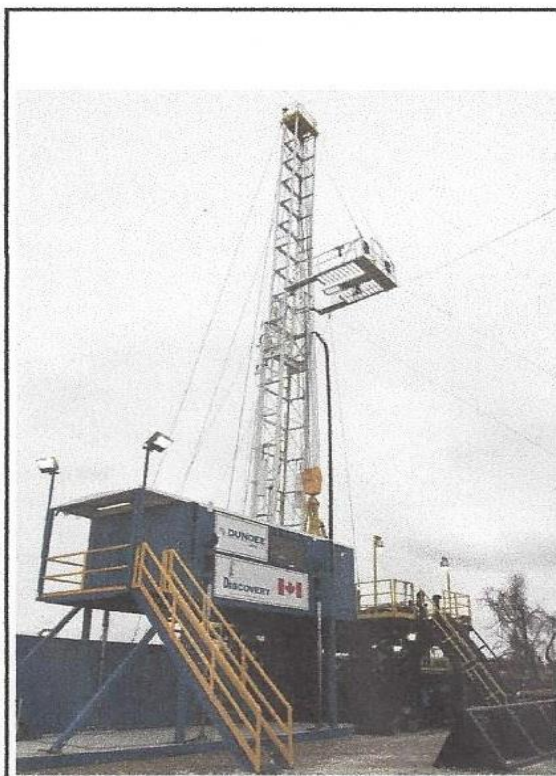
Canada has also been blessed with access to both the Pacific and Atlantic oceans. As a G7 country, it is inconceivable that we lack the political will and financial wherewithal to pipe our most important export to tidewater. This situation has been made all the more critical by the emergence of the United States as a major competitor in the energy sector.

Currently, Canada is able to pipe product solely to the United States, which means we are a price taker from our major energy competitor. You don't have to be Adam Smith to know how that turns out – just look at the price differential on our products compared with the prevailing market price, the importing of more expensive foreign hydrocarbons in Eastern Canada and the complete squandering of our natural advantage in the

race for LNG. Pipelines are the most viable means to safely and cost effectively transport hydrocarbon products. Period. And of course we should strive for the gold standard in environmental excellence in their construction, maintenance and monitoring. But build them we must. East and west.

It is imperative that our political and business leaders work in unison to ensure that we continue to capitalize on the natural-resource wealth upon which this country and its social-welfare systems have been built. Our wealth as a country is not our birthright nor is its continuance in any way guaranteed. We simply must be competitive on the global stage.

*Harris Fricker, President and CEO of GMP Capital Inc.
Special to the Toronto Globe and Mail
June, 2017*



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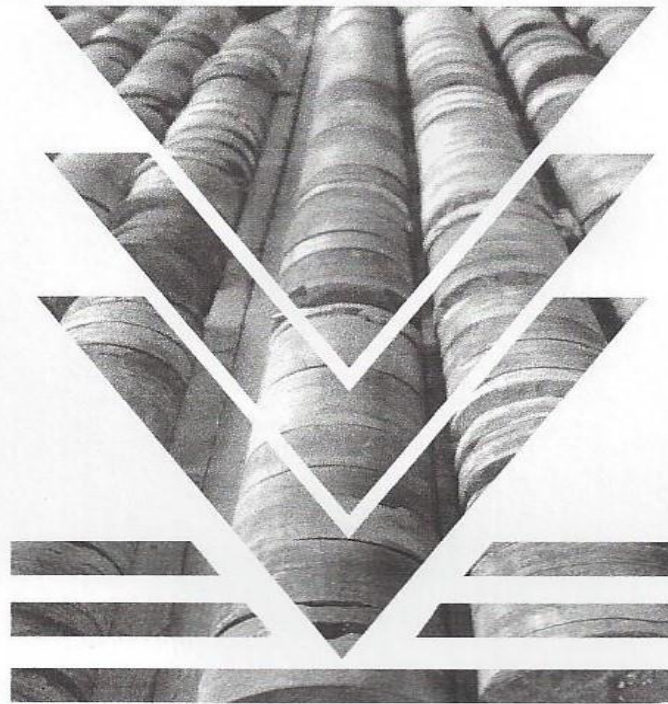
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2017 Upcoming Events

OPI Board of Directors Meeting

Friday, September 8, 2017
Boardroom at 555 Southdale Rd. E., London

OPI Membership Renewals

September 2017

Storage Symposium

Tuesday, October 17, 2017
Best Western Lamplighter Inn



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