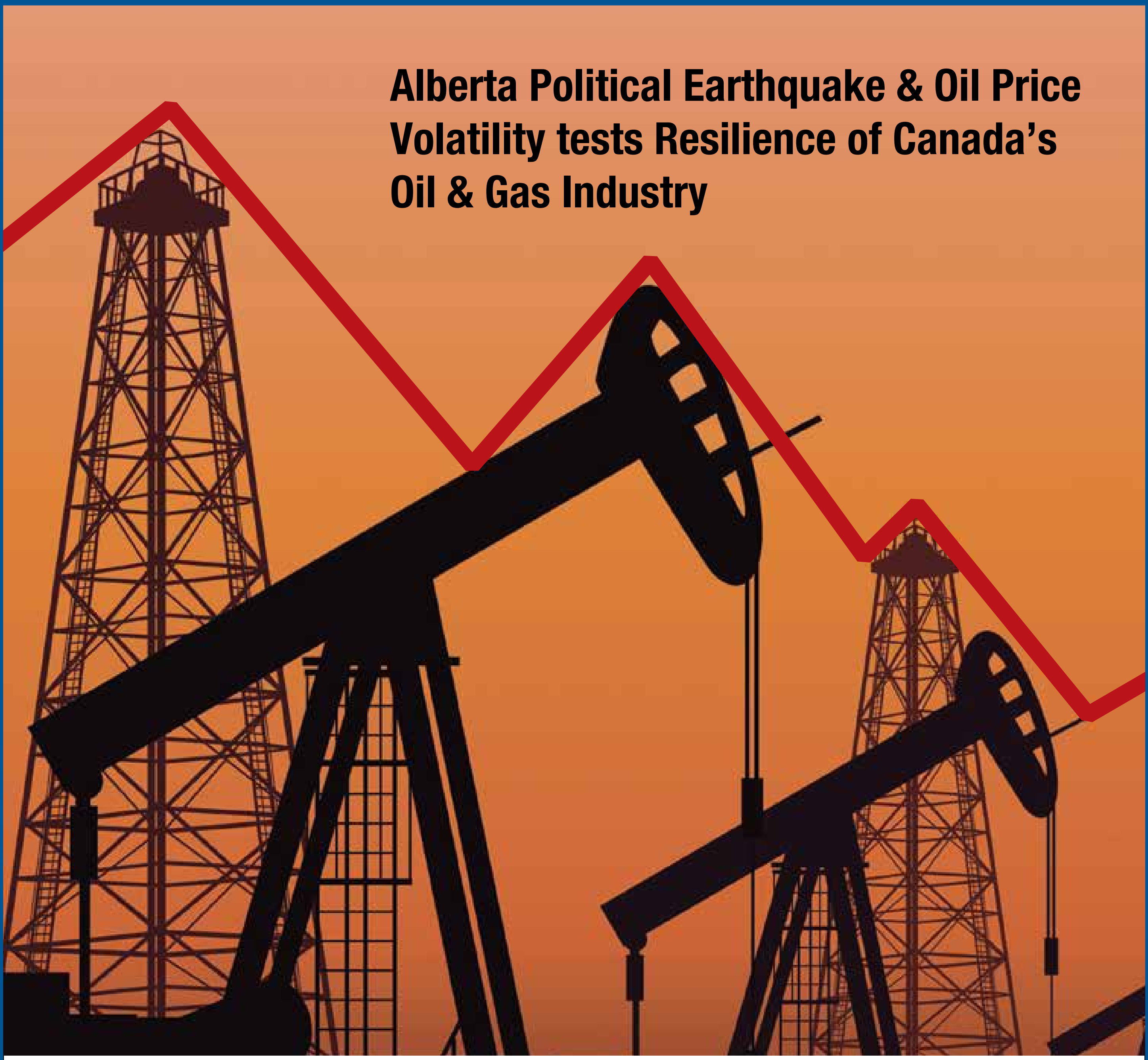
EXPLORER

Summer 2015 Issue



Alberta Political Earthquake & Oil Price Volatility tests Resilience of Canada's Oil & Gas Industry

EPAC
CANADA'S OIL & GAS ENTREPRENEURS™

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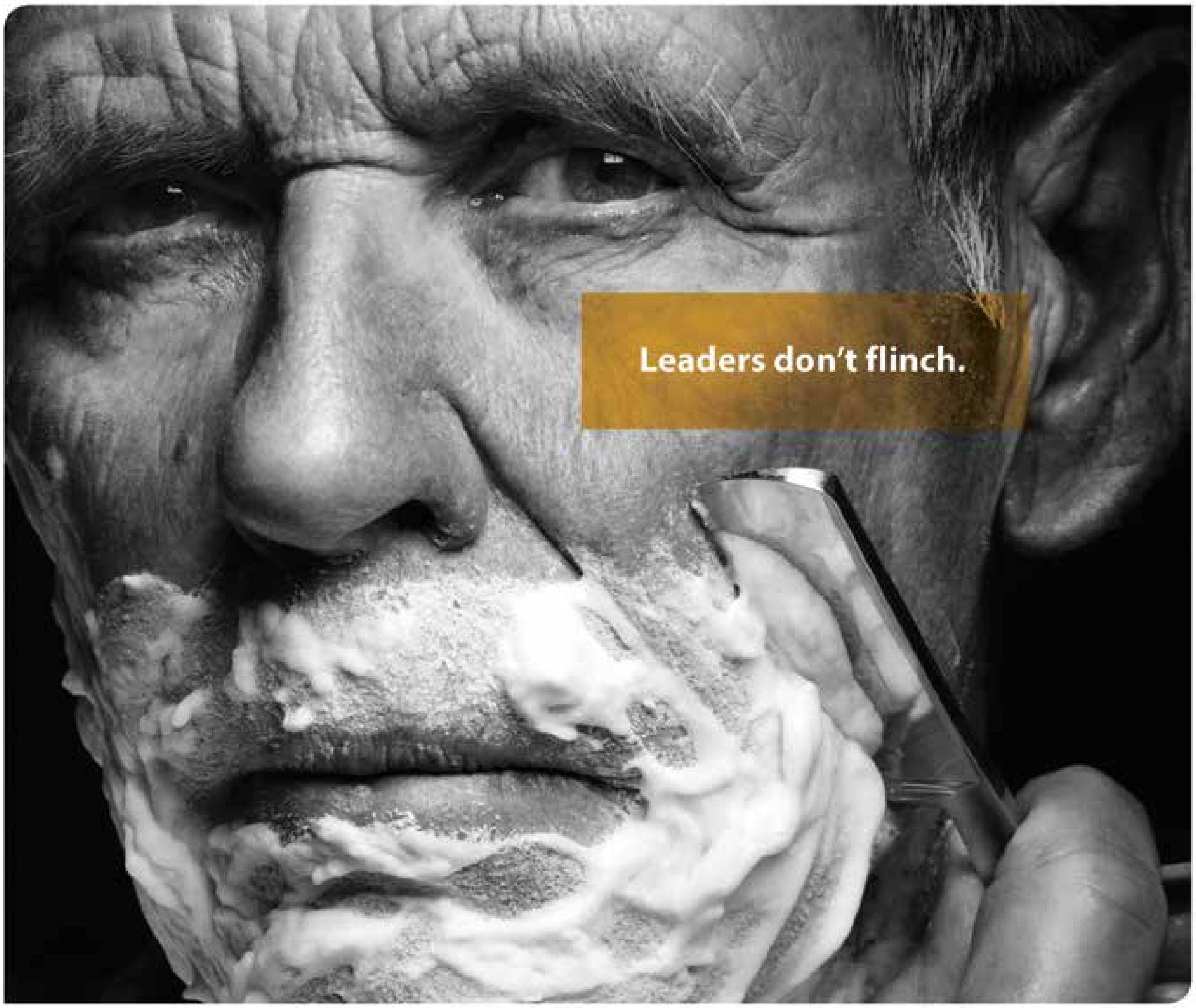
2015 EPAC Award Winners


Leaders don't flinch.

Summer 2015

THE EXPLORERS AND PRODUCERS ASSOCIATION OF CANADA

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In this Issue

EPAC Board of Governors

Alberta's royalty review and ongoing oil price volatility will test industry's resilience

The next 12 to 24 months will be a trying time for Western Canadian producers, whose resilience will be tested by low natural gas and oil prices in an oversupplied North American and global market. While the industry is reducing costs, including difficult but necessary steps to cut jobs and emerge stronger and more competitive, the reward at the end apparently will be higher corporate taxes and a royalty review in Alberta.

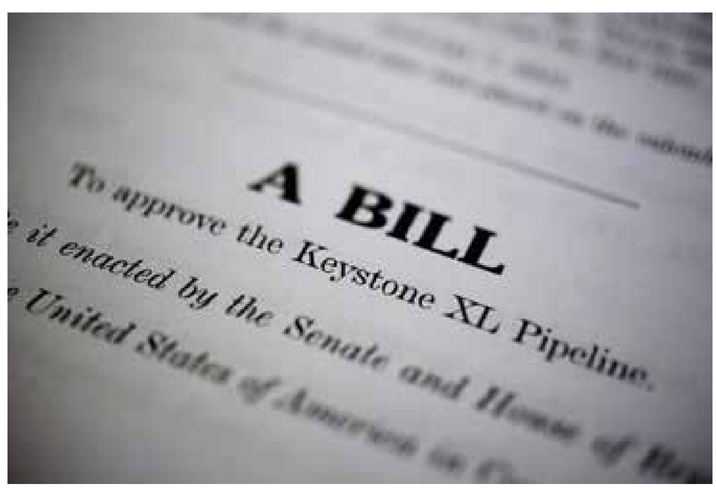
Collapse in oil prices has eliminated tens of thousands of upstream jobs in Western Canada and the US. Photo Credit: RBN Energy

The Canadian upstream sector is working its way through a collapse in revenues from $150 billion in 2014 to around $90 billion in 2015 (source: ARC Financial's "Fiscal Pulse" First Quarter 2015). Cash flow will drop a stunning 68% to about where it was 15 years ago at $22 billion. As spending is squeezed Canadians will be losing jobs and lots of them. Enform's PetroLMI (Labour Market Information) division released a forecast in May that suggests Canada could lose 185,000 jobs, both direct and indirect, as a result of the severe drop in oil and gas investment. Most of these job losses would be in Alberta and the impact to the economy is significant. In fact University of Calgary School of Public Policy analysis shows that oil and gas extraction jobs are by far the most 'value added' type of employment in Canada at $1.4 million value added per job which is ten times the value added for each job in the automobile manufacturing sector.

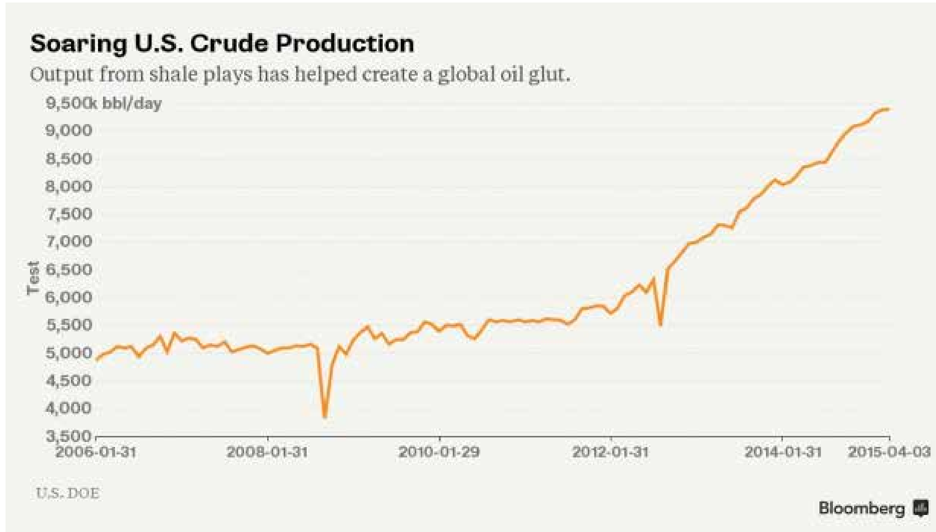
On the subject of oil prices nobody knows when and over what time period the industry's recovery will occur. However basic facts about global supply and demand ensures that prices must recover, perhaps not to lofty levels approaching $100 /bbl anytime soon but certainly enough to restore vigour to Western Canada's oil patch. We may have witnessed the first leg up with WTI hovering near the $60/bbl benchmark as concerns eased about crude storage capacity in the US and shale production growth paused. However other forecasters present an alternative case for why a sharp drop in prices is still to come before shale producers and other high cost operators capitulate and a truly sustainable price rally begins.

The total world oil production surplus is a relatively modest 1.5 to 2.5 million bbls/day excess over current demand of about 92 million bbls/day. Global oil demand growth is showing signs of being more robust than many had expected this year according to mid-year forecasts from the International Energy Agency. In fact, with just a steady 1.1% per year growth in global demand, a historically consistent trajectory, total consumption will be 6.6 million bbls/day higher than today by 2020. Plus what many outside our industry often overlook, is that the world's oil production capacity declines at an annual average of about 5% (4 to 5 million bbls/day). This means the world will need 20 million bbls/day of new production capacity within five years to overcome these declines and respond to steady demand growth to meet forecast world consumption. The investment needed to build this capacity is not happening at today's oil prices. ARC Financial's Peter Tertzakian has recently pointed out that producers around the world will be short over $1 trillion of oil revenue this year due to the price collapse, yet need to be investing $750 billion per year to meet production declines and accommodate steady global demand growth. In fact, as Peter Tertzakian notes the seven 'super majors' (ExxonMobil, Shell, BP, Statoil, Total, Chevron and ConocoPhillips) despite $1.3 trillion in spending over the last 10 years (to 2014) have seen their combined output drop from 12.5 million bbls/day to only 10.1 million bbls/day. Today's oil market surplus of around 2 million bbls/day could turn into a shortfall surprisingly quickly.

The variable most people are watching closely today is the response of US shale oil producers to current market oversupply because the Saudis and OPEC appear determined to keep their own production high in a fight for market share. Although the US has been astonishingly successful



Canadian producers have demonstrated resilience in the face of market access barriers, including the Obama Administration's veto of Keystone XL legislation. Photo credit: Bloomberg/WSJ in growing production by 4 million bbls/day over the last few years, production from North American shale wells declines by 65% in the first year and a lot of wells need to be drilled to keep ahead of the decline. Indeed, with a large decline in the number of rigs drilling for oil in the US over the past year, US oil production growth has slowed considerably and, in key producing regions like North Dakota, may be starting to roll over which, in turn, has spurred the recent recovery in the WTI benchmark to the $60/bbl range.



Rapid increase in US oil production spurs Saudis to abandon traditional stabilizing role as swing producer in OPEC. Photo credit: Bloomberg/Wall Street Journal

Predicting oil prices is generally considered a bit risky for one's reputation; indeed somebody once said a forecaster should never put an oil price and a target date in the same forecast. Some analysts weigh the influence of geopolitical contests between the Saudis, Russia and Iran. Others monitor US imports and domestic production and compare the surplus barrels against estimates of available storage capacity in the US which, if exceeded, would signal a major down leg in prices. One theory looks primarily at the motivation and sentiment behind Saudi production quotas, since they are the ones who triggered the global price collapse when they walked away from their traditional swing producer role. This theory suggests that a reasonable target price for Brent crude over the next year or two will be in the $60 - $70 range for two reasons: this price is high enough that the Saudis (who actually need Brent prices at more than $90/bbl to balance their national budget) can draw down their sovereign wealth funds at a manageable pace, while being low enough to suppress supply growth from the US shale producers. With the loonie currently trading just above 80 US cents, a barrel of

In Alberta the temptation to look for additional revenue from the energy sector will be great.

oil at USD $70 is pushing close to CAD $90 which would be pretty good news for a lot of companies in Canada's oilpatch.

However, even if prices are mostly on the upswing during the next 12 to 18 months, the lingering shock about the swiftness and scale of the price collapse has created a heightened degree of uncertainty for operators attempting to make medium and longer term investment decisions. A key unknown too is whether the Saudi abandonment of its swing producer role, which helped stabilize oil prices, will be a permanent feature of the world oil markets.

Producers may be forced by their bankers and investors to stress test their projects against benchmark prices in the $40 range to be sure they can withstand the worst price environments. Those kinds of price assumptions will be a huge challenge here in Western Canada given our high operating cost structure, which has grown by 50% in the last half dozen years and will force operators to be highly efficient in terms of capital investment and relentlessly focused on controlling costs.

However, even as our industry painfully re-tools its cost structure and looks for a price recovery over the next 12 to 18 months, that optimistic view has been unsettled by the declaration from newly elected NDP Premier Rachel Notley that her government will proceed with a royalty review. Premier Notley, a lawyer active much of her life in NDP politics in BC before returning to Alberta and getting elected to a seat in the Provincial Legislature in 2008, is described as a pragmatist and she has, since the election, made several statements intended to reassure the energy industry that she will take no decisions without consultation and collaboration. However, Alberta will be running multi-billion dollar deficits for several years and the temptation to look for additional revenue from the energy sector will be great.

EPAC will look for every opportunity to work with the new government in Alberta to advance the interests of our member companies, in particular the new Energy Minister, Marg McCuaig-Boyd of Peace River, a former school teacher and education administrator. The current highly complex royalty framework is a key policy and economic development tool that allows Alberta to remain competitive in a world where capital is global and mobile. Billions of dollars in investment and the jobs of tens of thousands of Albertans and other Canadians will depend on getting this agenda right and allow Alberta based producers to share in the global recovery that awaits the industry. Stay tuned as a new era in Alberta politics gets underway.

EPAC President's Report to Member Companies

WThe Alberta election victory for the NDP has created a large element of uncertainty and concern for our member companies. EPAC had a number of important topics we were working through with the government of Alberta prior to the election including royalty program extensions for horizontal drilling in tight oil and shale formations and deep gas drilling; orphan well and long term well liability issues, caribou habitat, municipal and property tax reform, land use planning issues, tenure continuation ideas, and more. In the short term at least it would seem unlikely these will advance given the understandable hesitance of the bureaucracy to act without clear direction from their political masters and the time required for the NDP to understand all the complexities of governing a province of 4.3 million people and the third largest economy in Canada.

The new Premier has already said a royalty review will come in the first term. Better to get it out of the way and clear up the uncertainty. EPAC will be looking for every opportunity to influence the outcome of the royalty review in Alberta to ensure the interests of our members are heard and understood. If the NDP has plans to be more than a one term government they will have to move to, and govern from, a practical, pragmatic centre position. Albertans clearly wanted a change at the top but 60% of the votes still went to centre right parties (Wildrose and Progressive Conservative).

"EPAC will be looking for every opportunity to influence the outcome of the royalty review in Alberta to ensure the interests of our members are heard and understood".

Apart from the political upheaval in Alberta the industry is struggling to adjust to the commodity price environment that afflicts both crude, gas and liquids. ARC Financial's recent Fiscal Pulse report states that 84% of the Canadian upstream sector's revenue stream is now oil dependent compared to only 50% in 2000 when natural gas was a bigger slice of the pie and the oilsands sector was much smaller. So when the price of oil collapsed at the end of 2014 the effect has been severe and far reaching. Many companies are facing very difficult circumstances and thousands of job and wage cuts are spreading the pain across Western Canada's oilpatch communities.

"84% of the Canadian upstream sector's revenue stream is now oil dependent compared to only 50% in 2000 when natural gas was a bigger slice of the pie and the oilsands sector was much smaller".

EPAC, as a business association, has been coping fairly well; our membership revenue is actually ahead of both last year's numbers (year to date) and our budget forecast, and we have a substantial contingency fund to weather difficult times. We take a tentative step towards predicting when the clouds may start to lift in this Explorer's cover story.

"EPAC will be submitting recommendations to the NEB in support of approval for the Kinder Morgan TransMountain Pipeline by mid-year".

In March EPAC hosted its second annual 'sold out' EPAC Awards presentation. Our appreciation goes out to ATB Corporate Financial as Presenting sponsor, Award sponsors: KPMG, KKR, DeGolyer & MacNaughton and Gowlings as well as Advisory sponsor, ARC Financial for their strong support. We also want to thank our partners in hosting the event JuneWarren-Nickels Energy Group (publishers of Oilweek and the Daily Oil Bulletin). We have photos from the luncheon awards event and a profile on the winning companies in this edition of our magazine. We also want to give a shout out to George Fink, Founder and CEO of Bonterra Energy for contributing to the success of the event as our keynote speaker.

At our June Investor Showcase in Calgary alongside our great lineup of EPAC member companies we introduced a new afternoon segment… the "Working Energy Investment Forum" hosted by our friends at the Petroleum Services Association (PSAC).

This year we welcome five new Board members: Glen Ross of Winnipeg (Tundra), Ken Frankiw (Red River Oil), Richard Dahl (Questfire Energy), Rob Waters (Enerplus), Wes Morningstar (Centrica). Many thanks to these gentlemen for volunteering to serve the industry and the association. And our sincere appreciation to Paul Gagnon who stepped down this year after serving on the Board of EPAC and its predecessor, SEPAC, for 25 continuous years.

Although we can't do anything about lifting oil prices, EPAC is focused on topics where we can preserve and improve the investment and operating environment in Western Canada. Here are some priority topics for your Board and Association in 2015.

Alberta

The top issue will be building relationships with the new NDP government and working with them on the royalty review. We have to get this resolved with minimum negative impact on the investment and operating environment for our Alberta based members. The government has announced this will occur in their first term. The rest of the NDP election platform mentioned other topics of concern including a new environmental policy, surface rights compensation and a renewed focus on aboriginal issues. We also have a number of issues underway at the Alberta Energy Regulator, mostly focused on project authorization improvements and reducing costs wherever possible without compromising the AER's mandate for resource conservation and environmental and public safety outcomes.

> "As always, we want to express our appreciation on behalf of the Board and entire membership to those volunteers from EPAC member companies who contribute their time and expertise to the many external committees and working groups…"

Saskatchewan

Our top priority in 2015 is to respond to the invitation from the Ministry of Government Relations to submit recommendations that would, if implemented, curb some of the worst abuses by rural municipalities in terms of unfair taxation, non-transparent and unaccountable imposition of fees and costs for alleged road use impacts. This project could have long term benefits for industry and remove one of the leading, and expensive, irritants to doing business in the province. We also hope to see results from recommendations submitted with CAPP to improve aspects of the flaring and venting directives. Expect to see sour gas emissions regulations, inspections and enforcement become a higher priority in Saskatchewan over the balance of the year.

BC and Manitoba

BC's focus continues to be dominated by the wait for at least one LNG project to be given the green light. This sector, for obvious reasons, has not been a priority for EPAC. We are interested in pursuing crude oil incentives and the government recently signalled a willingness to open the door on this topic. EPAC has several member companies active in Manitoba and collectively are a majority of that province's oil production. Rural municipal practices, road infrastructure improvements and a selection of taxation issues are expected to be a focus for this year.

Federal

EPAC will be submitting recommendations to the NEB in support of approval for the Kinder Morgan TransMountain Pipeline by mid-year. TransCanada's Energy East project appears to be delayed by one to two years. Ottawa will unveil by the second half of 2015 its detailed administrative guidelines on disclosure of all manner of payments for taxes, royalties, fees, etc. to municipal and provincial governments in Canada for companies in the oil and gas and mining sector. Companies active internationally are also caught up in this new reporting regime.

Our appreciation to our volunteers

As always, we want to express our appreciation on behalf of the Board and entire membership to those volunteers from EPAC member companies who contribute their time and expertise to the many external committees and working groups we participate in to advance the interests of our sector of the industry with government and other industry associations. Have a great summer and watch for your EPAC membership renewal package coming your way in late August for our new membership year that starts October 1st.

Gary C. Leach, President

The Explorers and Producers Association of Canada

Survival on Display

Winner profiles by: R.P. Stastny

Canada's junior oil and gas sector is again the centrepiece of the EPAC Awards, proving rumours of its imminent demise are vastly exaggerated

A year ago, the goal of Gary Leach, president of the Explorers and Producers Association of Canada, in launching the EPAC Awards was to recognize the bread and butter of the Canadian oil and gas industry—the largely entrepreneurial junior and intermediate sector.

This year, the second annual EPAC Awards (with ATB Corporate Financial Services back as the presenting sponsor) is almost a celebration of the sturdiness of a sector that many observers, given the dramatic fall in crude prices since the first awards were handed out, has suggested is most at risk. But the list of nominated juniors was the largest of the four categories, and the performance—and outlook—of those companies is a testament not just to the resiliency of the junior sector, but to the Canadian oil and gas business as a whole.

"It's true the junior sector will be under a lot of pressure, and new business models and new corporate leaders will likely emerge from the changes sweeping over the industry this year," Leach said. "But the homegrown junior sector has been around in one form or another for nearly a century and will continue to play an important role in the Canadian oil and gas industry for decades to come."

Strong contenders were nominated in each of the four categories: Emerging (sponsored by private equity company KKR & Co.), Junior (sponsored by KPMG), Intermediate/Senior (sponsored by Gowling Lafleur Henderson) and International (sponsored by DeGolyer & MacNaughton Canada). Performance metrics for each of the nominated companies were compiled by advisory sponsor ARC Financial, and judges representing the sponsors, EPAC and JuneWarren-Nickle's Energy Group set about the difficult task of choosing one winner from each category.

"All the companies nominated were, in my view, high-quality candidates who really illustrate the world-class level of competition we have established here in Canada," Leach said.

"In every category, there were usually three or four nominees who were very close in the overall numerical rankings, which prompted some lively discussion amongst the judges to reach a decision on the overall winner."

While the winning companies were selected based on operating and financial results that preceded the price collapse, Leach added that those companies that demonstrated the strong management skills favoured by the judges are more than likely going to be nimble enough to adjust their business models and remain among the leaders.

"For example, there may be opportunities to acquire assets at good value which will create an even stronger growth platform for the future," he said. "We would expect the skills shown by the management teams recognized this year to continue to drive investor value and we will be watching to see how successful they may be at next year's EPAC Awards."

Previous page, this year's winners left to right: Mona Jasmiski, Exec. VP People & Culture, Vermilion Energy; Susan Targett, VP Land, Seven Generations Energy; Tom Bieschki, President/CEO Caltex Resources; Gail Hannon, Chief Financial Officer, DeeThree Exploration

Above left: President of EPAC Mr. Gary Leach

Above right: Mr. George Fink President & CEO of Bonterra Energy Corp.

Award photos by Charles Hope Photography

Emerging producer winner: **Caltex Resources**

Tom Bieschki, President/CEO Caltex Resources and Brandon Freiman, Head of Canadian Energy and Infrastructure, KKR

Founded in mid-2011 by Oilweek Rising Star Tom Bieschke (Class of 2010), Caltex Resources replicates the success of its predecessor company, Caltex Energy, which Bieschke and his business partner, Brett Wrathall, founded in 2005, built to 11,500 boe/d and sold to Crew Energy in 2011 for $622 million.

The new Caltex is also built with private equity. This iteration also has a strategy similar to its predecessor with a focus on large resource-in-place pools with low recovery factors. Essentially the same team that created material shareholder value at Caltex Energy runs this operation.

Bieschke is an engineer by training so it's not surprising that the company's strategy is built on technical innovation and growth through the drill bit. Since inception, Caltex has drilled 60-plus wells in the Kerrobert area of Saskatchewan and demonstrated strong results. Since 2012, when Caltex acquired its Druid field, a conventional heavy oil asset capable of being drilled horizontally with improved economics, Caltex has managed to drive down drilling costs by 40 per cent from the previous operator. Initial production numbers for wells have tripled. Operating expenses have been cut in half. And corporate production has gone from 200 bbls/d to more than 5,000 bbls/d.

Controlling costs in heavy oil development is key. Some of the gains Caltex has realized have come from the transfer of technologies used in other parts of the basin to this heavy oil field. Fluid loss additives in drilling muds, recycling drilling fluids, changing of fluids used for running casing, the use of single trip liner top packers systems, pad site drilling, multi-well batteries and a host of other adjustments all add up to major capital efficiencies and reduced surface impacts.

"Again, this is a company that's showing tremendous growth," says Rob Cook, Senior Vice-President and Director, ARC Financial. "They have the highest production growth per share in their category and the highest cash flow growth per share. This company went from a few hundred barrels a day to several thousand barrels a day within a year or two."

Like many larger EPAC award winners, Caltex is strong on building better communities in the areas of its operations. It supports charities and programs in Calgary and Saskatchewan through team sport sponsorships, employee volunteering, events and barbecues, and wide-ranging support for everything from firefighters and hospitals to daycares and food banks.

"There's a general comment to be made about the management of all these companies—Vermilion, Seven Generations, DeeThree and Caltex," Cook says. "They're all highly regarded with very experienced management teams, but they're also in quality assets. You can't be in average assets to be a top company. You have to be in superior assets."

Junior producer winner: **DeeThree Exploration**

Jonathan Fleming, VP Capital Markets and John Waiand , Partner and leader of the Junior Oil & Gas Practice, KPMG

Of all the volatility in the Canadian stock market since late November, when OPEC declined to cut crude oil production, energy stocks took the biggest hit. Not surprisingly, by January, that sell-off had analysts compiling lists of energy companies that represented the greatest buying opportunities. Topping more than one of those lists was DeeThree Exploration.

"They have very good numbers," says Rob Cook, Senior Vice-President and Director, ARC Financial. "We were generally impressed by their significant exploration success. If it happens once, you can say they were lucky. When it happens several times, you just know they're doing something special."

The junior space is full of entrepreneurial companies, and DeeThree is one of the very best examples of what a nimble, innovative company can do in a mature basin where most of the big finds have already been made. Working on large oil in place, multi-zone opportunities, DeeThree holds high-working-interest land positions in southeastern and west-central Alberta.

Ferguson oil from the Upper Bakken siltstone is a DeeThree discovery. DeeThree was also one of the first to prove-up Brazeau oil, natural gas and natural gas liquids from multiple zones in the Belly River sands through horizontal oil development.

DeeThree's progress over the past four years comes down to a relentless focus on generating success through the drill bit. Geological vision, exploration grit and continuous technical innovation are pushing DeeThree's production growth from a small junior toward the ranks of an intermediate-class producer. Last year, DeeThree achieved its exit guidance, averaging 13,000 boe/d for the year.

For 2015, DeeThree has set a $160-million capital budget, targeting approximately 13,300 boe/d of average production for the year. The budget is structured to maintain DeeThree's strong balance sheet while providing maximum financial and operational flexibility.

In the first half of 2015, the company plans to drill 13 wells for about $68 million. In the second half, it intends to spend $92 million to drill 16 more wells. Years of significant investment in upgrades and expansions of its facilities in both its core areas now allows DeeThree to spend 93 per cent of its 2015 capital budget on drilling and completing wells.

A full-scale gas re-injection enhanced oil recovery scheme is also slated for its Alberta Bakken pool. The company is reportedly well positioned to rapidly increase voidage replacement in this pool with minimal future capital expenditure. A fourth injector is expected by the end of March, a fifth in the third quarter of 2015.

"Like all of the winners, this company was at the top, or near the top, on all the metrics," Cook says. "Very high profitability. Their recycle ratio was number one—that's their netback divided by their finding and development costs. They also ranked well on all the other metrics."

EPAC Intermediate/Senior winner: ***Seven Generations Energy***

Susan Targett, VP Land, Seven Generations and Pat Burgess, Calgary Energy Group Head and Global Vice-Chair of the Energy, Infrastructure and Mining Industry Group, Gowlings

Privately held Seven Generations Energy was founded in 2008 with $300 million of private equity and built a name for itself in the liquids-rich natural Kakwa River area of the Montney. Its fourth quarter production in 2014 was averaging 43,500 boe/d when it successfully completed an initial public offering in the face of collapsing oil prices. The IPO raised $930 million with the issuance of 52 million shares at $18 each, making it the second-largest public float of 2014.

Seven Generations continues to run apart from the pack in 2015 in refusing to chop its 2015 capital spending budget of $1.6 billion. It expects to reap cost savings from the lower demand for services as $50 oil takes its toll across the basin.

"Seven is one of those rare cases that goes from start-up to their guidance this year of 55,000–60,000 [boe/d] and they've essentially done all this through the drill bit," says Rob Cook, Senior Vice-President and Director, ARC Financial. (Full disclosure: Arc Financial is a significant shareholder in Seven Generations.)

"They represent a private equity model that we advocate," he says. "That's starting with private equity sponsorship, being well capitalized to build up a significant business. Somehow they were even able to pick the right timing to go public."

The argument for more patient private equity funding for startups in particular is often heard these days with the higher cost of entry into the resource play-dominated oilpatch. Well-financed privately held companies have more time to make the right decisions based on the needs of their assets rather than on quarterly results expectations.

"Sometimes if a small company has to go public too soon and doesn't have the momentum, it can be difficult to sustain their initial success in the public market," Cook says.

Of the seven metrics used by ARC Financial to analyze the EPAC company nominees, Seven Generations ranked first in four of the categories. In a news release in January, Chris Law, Seven Generations Vice-President of Corporate Planning, said the company can at least hold production steady this year while earning 15 per cent before tax, even at a WTI crude oil price of US$45/bbl, if Henry Hub natural gas is at least US$2/mmBtu. It can achieve the same at $35/bbl if the natural gas price is $3, he said.

Seven Generation pushes hard on innovation. Aggressive drilling techniques have shed several days of drilling from the build section of wells in this area. It drills laterals with clear brine-based fluid to increase rates of penetration and for quicker kick detection. It has been among the first companies to field test various completions technologies rolled out by Packers Plus, Schlumberger and Weatherford. And it has established itself as an industry leader in frac design, with some of the highest volumes of sand pumped per metre of horizontal lateral length in the Montney. One service company even offers a frac design to other operators called the "7G frac."

International winner: ***Vermilion Energy***

Mona Jasmiski, Exec VP People & Culture and Nahla Boury - President, DeGolyer and MacNaughton

With 60 per cent of its production coming from overseas, Vermilion Energy is among a handful of Canadian producers that are benefiting from marginally better Brent crude oil prices and significantly stronger international natural gas prices. It's one reason that Vermilion expects to continue growing its production at 15 per cent year over year, despite the oil price collapse and despite its lower 2015 capital budget of $525 million compared to $675 million in 2014.

"Vermilion has been around for 20, 25 years. It's all over the world, and it's an extremely well-regarded company," says Rob Cook, Senior Vice-President and Director, ARC Financial. ARC provided the analysis of company metrics that EPAC judges used to choose their winners in each category. "They ranked number one for total return, which is its share price as well as the dividends. Vermilion is also among the few companies that hasn't cut its dividend so far."

In the oil and gas stock sell-off at the end of last year, Vermilion also faired better than most public companies. So the long-term investor is well rewarded.

Vermilion expects average production of between 55,000 and 57,000 boe/d in 2015. Its strategic response to the oil price drop is to redirect its 2015 spending to the expansion of its European gas development opportunities. European gas price fundamentals remain strong, so Vermilion's assets in the Netherlands and France, its recent acquisition in Germany and its upcoming production in Ireland are the key focus areas, along with a modest early-stage investment in gas-prone Hungary prospects.

Outside of Europe, Vermilion is building value by funding previous commitments to drilling activity, managing land expiries, participating in joint-venture activities and investing in the strategic infrastructure necessary to support future growth.

In North America, however, challenging commodity prices will reduce Vermilion's Canadian spending. It will shift investment from its Cardium light oil play to its Mannville condensate-rich natural gas project.

"Our Cardium development offers significant flexibility with high levels of operatorship and limited expiries," the company reports in its 2015 guidance. "Development of the Cardium will continue in 2015, but at reduced activity levels compared with prior years."

To operate effectively in multiple jurisdictions, Vermilion has to do many things well. Best-in-class environment and safety performance is key. Vermilion shows a strong commitment to community support in all its operating jurisdictions. Its dynamic workplace promotes women in leadership roles and encourages participation in programs aimed at healthy employee lifestyles. Vermilion has been recognized by the Great Place to Work Institute as a Best Workplace, in both Canada and France, for five years running.

But Vermilion's hard numbers speak for themselves. "That Vermilion was able to do something special in western Canada, as well as in other places around the world from France to Australia, I think is what resonated with the judges," Cook says

The EPAC Awards, hosted by The Explorers and Producers Association of Canada in partnership with JuneWarren-Nickle's Energy Group and presented by ATB Corporate Financial Services, recognizes and celebrates the top Canadians in our upstream oil and gas industry.

Congratulations to all the excellent candidates who were nominated and best wishes for continued success.

The awards, generously sponsored by KKR (Emerging Producer), KPMG (Junior Producer), Gowlings (Intermediate or Senior Producer) and DeGolyer and MacNaughton (Canada-based International Producer), draw on a legacy of bold entrepreneurial vision and achievement that stretches back to Turner Valley one hundred years ago. The candidates have been evaluated and ranked against their peers on key financial and operating benchmarks. We are grateful to our Advisory Sponsor, ARC Financial, for their analysis of the nominees.

This feature was originally published in the April 2015 edition of Oilweek, Canada's Oil & Gas Authority

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EPAC Annual General Meeting

On March 13, 2015 EPAC held it's Annual General Meeting at the Calgary Petroleum Club.

1. The Executive Board at the start of the 2015 AGM
2. Board members listen to a motion
3. Motion voted upon by the members
4. EPAC year in review is presented by President Gary Leach

Photos provided by Charles Hope Photography

Above & Left: Mr. Paul Gagnon accepts a gift from the Board for his 25 years of service.

Photos provided by Charles Hope Photography

Below on December 3rd, 2014 our Board of Governors held their annual dinner at the Calgary Petroleum Club.

Standing: Gary Leach, Jim Riddell, Aidan Walsh, Ken McCagherty, Paul Gagnon, David Wolf, Bruce Robertson, Jim Screaton, Doug Kay, Doug Hittel, Brad Thiessen
Sitting: Neil Smith, Kel Johnston, Stan Odut, Steve Fagan, Paul Wanklyn
Absent: Dan Brown, Joh Ferguson, George Fink, Jonathan Lexier, Brian McLachlan

Photos by Charles Hope Photography

Oil and Natural Gas Exploration and Production: The Ontario Advantage

Hugh Moran, Executive Director
Ontario Petroleum Institute

The Ontario Petroleum Institute (OPI) www.ontariopetroleuminstitute.com is the industry association that represents the oil and natural gas production and hydrocarbon storage industries located primarily in southwestern Ontario.

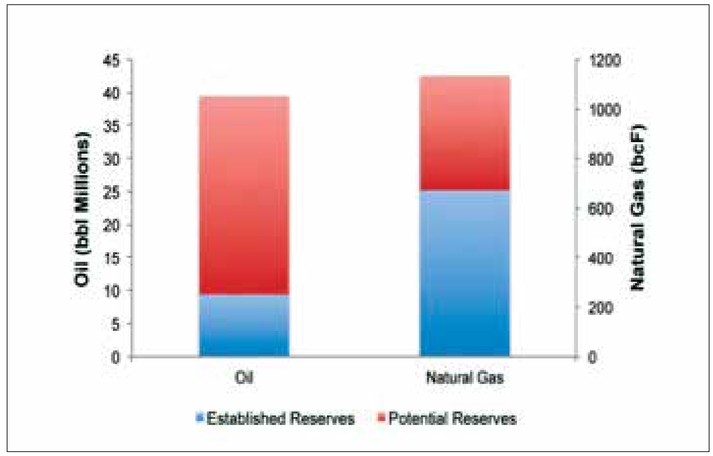
The OPI actively promotes Ontario as a profitable exploration and development opportunity encouraging E&P companies and investors to consider "The Ontario Advantage". Ontario companies are open to partnering with companies interested in developing Ontario's natural resources.

The first heartbeat of oil production in North America started in Ontario in 1858 with the first commercial oil well, petroleum company and oil exchange. Oil continues to flow from wells discovered some 150 years later. It was from this early discovery that drilling and refining techniques were developed and ultimately taken around the globe.

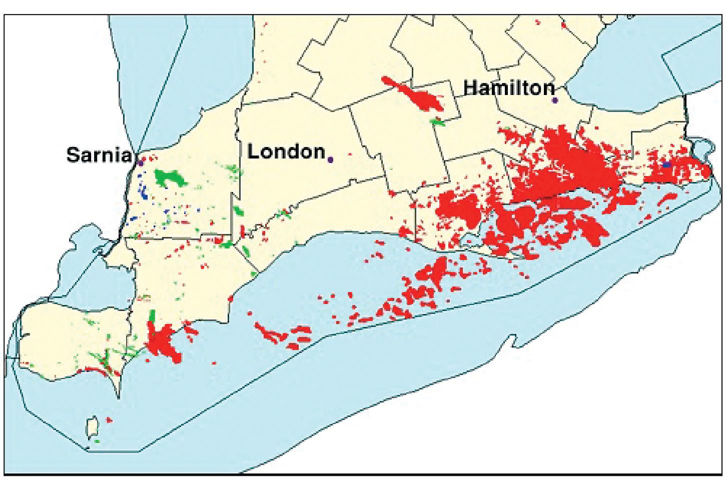
Natural gas has been around as long as crude oil with the first natural gas plant established in Central Canada. Production has evolved with Southwestern Ontario being the centre of distribution with one of North America's largest underground natural gas storage hubs.

Conventional Reserves

In Ontario, with 50% of the potentially recoverable conventional oil and natural gas that remains to be developed. The industry has the potential to produce oil and natural gas for the foreseeable future. Conventional reserves are found Southwestern Ontario reservoirs with potentially 30 million cubic meters of undiscovered crude oil and 35 billion cubic meters of natural gas in the Michigan and Appalachian sedimentary basins.



Established and potential reserves of Ontario oil and natural Gas



Oil and Natural Gas Pools in Southwestern Ontario

The Ontario "patch' is particularly attractive because of the above average productive life of wells in the province. Oil in particular, has longevity in parts of Southwestern Ontario were wells are estimated to produce, on average, 30 years.

Drilling Capacity

The Ontario industry has experienced drilling capability accumulated from the early beginnings of the industry in Southwestern Ontario. These innovations in drilling techniques have been at the forefront of exploration and production in North American.

"The OPI actively promotes Ontario as a profitable exploration and development opportunity encouraging E&P companies and investors to consider "The Ontario Advantage".

In addition various companies provide a multitude of services: geological consulting, engineering and oilfield services, pipeline support, facility maintenance, construction and waste services to just name a few.

Transportation

The industry is supported by a network of road infrastructure constructed by the industry – for access to drilling and wellhead operations usually on leased land – and the road system provided by the Province of Ontario and municipalities throughout the province.

Oil is trucked to market directly to refineries in Sarnia, Ontario. A network of pipelines flow natural gas to distributors such as Union Gas or Enbridge or, in

some instances, the gas produced is retained for local commercial use.

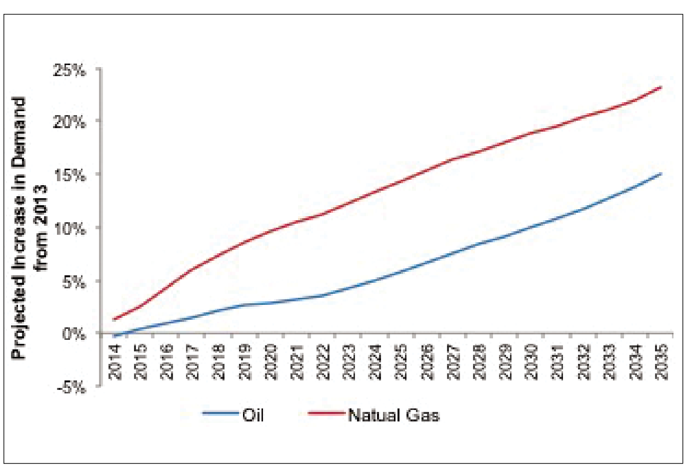
Ontario is also supplied by several pipelines including the TransCanada Mainline which runs across northern Ontario, south to Toronto and eastwards to Quebec.

Royalties

In Ontario minerals rights are freehold with landowners receiving royalties of 12.5% for oil and natural gas production with one exception, royalties for resources development on waterways is payable to the Government of Ontario.

Market

The Ontario Advantage begins with a resource potential that has long life reserves and low declines of sweet crude oil and natural gas. This, combined with an experienced workforce, support services, developed infrastructure, refining capacity and immediate market access enables Ontario to offer companies high net-backs and investors high return on their investment.



Projected Growth in Ontario Demand for Oil and Natural Gas from 2013

Commercial producers in Ontario have an unlimited market in which to sell the energy they produce - 150 million barrels of oil yearly for petroleum products and approximately 1 trillion cubic feet for the natural gas market. Increasing this supply enhances the security of supply and contributes to the Ontario economy.

> "Today Ontario imports 99% of its oil and natural gas. The challenge for the industry is not so much as finding a market but ensuring that it remains a relevant supplier of energy."

Today Ontario imports 99% of its oil and natural gas. The challenge for the industry is not so much as finding a market but ensuring that it remains a relevant supplier of energy in the current market. It's important that the industry remain relevant so it can extract the resource potential that remains, increase the industry's share of the provinces energy supply and remain a viable contributor to the Ontario economy.

Ontario Oil, Gas and Salt Resources Library

Ontario is unique in that it is home to what is often referred to as a "jewel" in the province's energy industry, the Ontario Oil, Gas and Salt Resource Library (Library) www.ogsrlibrary.com. The OPI manages the Library which is an important resource centre offering the most current geological information for the exploration and development of crude oil and natural gas providing data companies require to conduct their business in the most orderly, safe and efficient way possible.

For more information about the Ontario oil and natural gas industry please visit the Ontario Petroleum Institute web site at www.ontariopetroleuminstitute.com or contact:

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Safety and COR Certification Today's Oil Climate

The drop in oil prices has affected all of us, and if you've been forced to temporarily cut back on your operations as a result, you're in good company. But what happens to health and safety management during an economic downturn when companies are cutting operations and costs?

Injuries and illness affect employee morale and can be costly. Maintaining a health and safety culture can reduce your exposure to legal risk, and save on the cost of replacement worker training, property damage and incident investigations.

Maintaining or acquiring a valid Certificate of Recognition (COR) certificate is a proven way to improve health a safety performance. Not only is COR certification an indicator that your company is invested in workplace health and safety, it can also have some very tangible benefits, including:

- A healthier, safer workforce
- Considerable WCB savings, including
  - 25% lower WCB claims
  - Up to 15% reduction on WCB premiums
- Provincial WCB rebates up to 20% in Alberta and 15% in B.C.

A COR is awarded to employers who implement and maintain a health and safety management system that meets established set provincial standards.

Enform, Canada's safety association for the upstream oil and gas industry is the only certifying partner in Canada that provides COR services across the jurisdictions, This means a company only needs to conduct one audit through Enform if they are operating in multiple provinces.

"When a company requires their safety program to be certified, they hire an external auditor that has been certified through Enform to conduct an independent audit of their system. A COR is granted to the company provided that a passing score is achieved on the audit," says Juliet Goodwin, manager, safety audits and certifications at Enform.

The COR process helps companies focus on continually improving their health and safety management. Goodwin explains, "Following the audit, companies will receive recommendations for improvements in the form of a formal report from their auditor. When they audit for recertification in three years' time, their progress towards those corrective actions will be taken into account. Maintenance audits are required during the two years between certification and recertification."

Enform recognizes that the economic downturn may make it difficult for companies to complete their COR certification or maintenance audit. To help you through the process, Enform has a number of options:

1. If you have a dramatically reduced number of worksites:

As long as you have at least one active field site you can base your sampling requirements on your best estimate of your high or medium activity levels for the current year. Requirements include:

- The resulting audit must be representative of your overall operations for the audit year.
- If you acquire new operations and undergo major business

expansions, a new external audit may be required.

It's important not to deliberately schedule your audits at times when your activity levels are low as a cost-saving measure. If you do, you may lose your COR or be required to re-audit.

2. If you've been reduced to out-of-province worksites only:

In this situation you can request permission to use out-of-province worksites for the current audit year, as long as the application is made prior to the start of the audit. You will be asked to submit a report detailing any fatalities, serious injuries or incidents, as well as occupational health and safety violations that happened out-of-province.

The Enform COR empowers Canadian oil and gas companies – and delivers impressive results.

- ROI: $10 return for every $1 invested
- $1 billion saved in reduced WCB premiums since 1994
- $103 million in WCB rebate incentives since 2000 in Alberta
- $4 million in WCB rebate incentives since 2006 in BC

3. If you have no active worksites:

Even if you have no active worksites you can apply for a six-month COR, requiring only an administrative audit. This keeps your certification valid until a full audit can be completed under normal operations. It's important to note that an administrative audit must be performed by an Enform External Auditor.

Tips for cost-effectively maintaining your COR

Enform provides a number of audit options to help companies minimize the cost of maintaining their COR. Companies with a proven, effective health and safety program may be eligible to perform an Action Plan in lieu of a maintenance audit.

Visit Enform's website to learn more about audit options such as Action Plans and to find information on having internal staff conduct your maintenance audit.

If you would like to learn more about your options, you can contact Enform to review your file. You will need to provide a statement of your company's current and future state of expected operational levels for 2015. For more information about Enform and the COR program, visit www.enform.ca. ♦

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