



OPI NEWSLETTER

THE VOICE OF THE ONTARIO OIL AND NATURAL GAS INDUSTRY

SUMMER 2019

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Encouraging responsible exploration and
development of the oil, gas, hydrocarbon
storage and solution-mining industries in
Ontario

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Ontario Minister of Natural Resources and Forestry attends EPEX 2019: OPI 57th Conference and Trade Show



The Hon. John Yakabuski gave the keynote luncheon address to attendees at the EPEX 2019 luncheon at Best Western Plus Lamplighter Inn & Conference Centre, London on April 30, 2019.

The Minister referred to Ontario's oil and natural gas industry as a valued and long-standing stakeholder promoting a safe and competitive petroleum industry. The full text of the Minister's speech is available to read at:

<http://www.ontariopetroleuminstitute.com/wp-content/uploads/2019/06/Hon.-John-Yakabuski-Keynote-Address.pdf>

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Message from the Executive Director

At the mid-point of 2019 it's been an eventful six months of activity for the OPI with a series of conferences, meetings and events.

The OPI Board of Directors held its regular meeting on May 24th. The items discussed included a review of the 2019 Budget; reports on regulatory

actions affecting Historic Producers; an update on the Imperial Oil Refinery operations, Enbridge Gas Inc.'s application to raise its natural gas rates for 2019; a request from the Oil Museum of Canada regarding an educational program initiative, status of the proposed OPI By-laws amendments; developments on the tax assessment issue; and the

Nominating Committee in the initial stage of preparing a Board of Directors slate for 2020.

The Directors accepted two new associate non-voting member applications from Erin Dee-Richard, Oil Museum of Canada and Luc Masse, Intragaz.

As highlighted in the newsletter, EPEX 2019: OPI 57th Conference and Trade Show held in late April featured an impressive array of presentations from an experienced group of industry experts on oil natural gas development, energy storage and academic research in geology. And the OPI was especially pleased to have the Hon. John Yakabuski, Minister of Natural Resources and Forestry meet with attendees, exhibitors and give a keynote luncheon address.

The OPI Board of Directors met with Minister Yakabuski for a discussion on the current state of Ontario oil and natural gas exploration and production, and to provide him with some insights on how the industry operates, its hopes for the future, and how the Ontario government can help.

There were important developments from the MNRF recently with the announcement of the retirement of Deputy Minister Bill Thornton and the appointment of a Monique Rolf von den Baumen-Clark as Interim Deputy Minister. In London, Sherry Pineo, Manager of Petroleum Operations Section is retiring in early August, and long-time Operations Engineer Jug Manocha retired on June 14th.

The Oil, Gas and Salt Resources Trust (Trust), which is managed by the Oil, Gas and Salt Resources Corporation on behalf of the OPI, reported a surplus for its 2018 Trust Financial Statement for year ending December 31, 2018. The Oil, Gas and Salt Resources Library continues to obtain sufficient projects that have resulted in a string of surpluses in recent years. A significant three-year project for the Library is expected for approval by mid-summer 2019.

The Corporation at its May 24th meeting appointed Mike Edgar, Site Supervisor, Corunna Facility with Pembina Pipeline Corporation as the representative for the hydrocarbon cavern storage industry on the Oil, Gas and Salt Resources Trust Advisory Committee that oversees Trust operating budgets.

The OPI held its annual Golf Tournament on June 12th at the Links of the Kent Golf and Event Centre in Chatham. A pleasant day of golf was followed by a delicious steak dinner and prizes for everyone in attendance. All-in-all a successful day thanks to the efforts of Lorraine Fillmore, OPI's Office Manager who again did a superb job of organizing the day for members.

Please enjoy the 2019 OPI Summer Newsletter as well as summer itself. You can contact me anytime at 519-630-4204 or hughmoran@ontariopetroleuminstitute.com

Hugh Moran, Executive Director

OPI Talking Points

OPI Report on Ontario Oil and Natural Gas Exploration and Production

The OPI Report on Ontario Oil and Natural Gas Exploration and Production has been sent to the Deputy Minister of Natural Resources and Forestry (MNRF). The report is a result of an undertaking with the MNRF to explore and identify industry concerns related oil and natural gas exploration and production in Ontario. The report will include a number of recommendations for changes to the Oil, Gas and Salt Resources Act, Regulation 245/97 and the Provincial Operating Standards.

Michigan Petroleum Conference

The OPI attended the Michigan Petroleum Conference on April 18th in Traverse City, Michigan. A two-part event with Michigan Oil and Gas Association hosting its trade show in conjunction with a Petroleum Technology Transfer Council full day workshop – Field Redevelopment Opportunities – with 200 attendees.

Fanshawe College

The OPI sits on the Program Advisory Committee for the Research and Evaluation program at Fanshawe College and attended an event on April 24, 2019 at Fanshawe's downtown London, Ontario campus that included a tour of the facility and an information session on Fanshawe's Research and Evaluation Graduate Certificate program.



On June 18 2019, on his last day of work, Jug Manocha, Operations Engineer with the Petroleum Operations Section was recognized with an Award of Merit by the Canadian Standards Association (CSA) for his contributions to knowledge, to safety and environmental protection for contributions. He was one of the 14 recipients of the 10,000 committee volunteers at the 100th Anniversary of CSA Annual Meeting in Ottawa.

Jug Manocha is one of the founding members of the CSA for both the CSA Z341 Storage in Underground Formations and the CSA Z625 Well Design Technical Committees. He has also represented the Ministry of Natural Resources and Forestry (MNR) for ten years as a member of the CSA Regulatory Affairs Committee.

For nearly 30 years Jug has been a proponent in the production of many specific sections of the Z341 standard that led to the development of Mechanical Integrity Testing and Risk Assessment components of the standard including well schematics and calculations. Jug was the chair for the 2006 edition of the Z341 and remains the training chair for this standard.

Through Jug's many training sessions, symposia sessions, presentations to industry and senior government staff, Jug has promoted CSA's collaborative and continuous improvement model as the best way for industry and regulators to achieve mutually beneficial and agreeable standards. His contribution to developing

effective standards that include inherent public safety, resource management and environmental protection features, ensures longer term reliability of the operations and the facilities.

Jug has been a frequent proponent and presenter of the Z341 Storage in Underground Formations standard to the Ontario Petroleum Institute. He has also arranged several training sessions through the OPI, including the latest on May 21, 2019 with 31 participants.

Jug had received an Award of Merit from the OPI in 2017. As Jug is moving on from the MNR, we wish him continued success and congratulate him on the 2019 Award of Merit from the Canadian Standards Association.

OPI GOLF TOURNAMENT

We held our annual golf tournament at the Links of Kent Golf and Event Centre in Chatham on June 12th. A great day was had by all that attended.

A huge thank you goes out to all our sponsors:

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Fun in the sun at the OPI Golf Tournament



From the Newsroom

A wiser way forward for pipelines

A 1953 documentary, *Oil Across the Rockies*, chronicles the building of the Trans Mountain pipeline from Edmonton to Vancouver. The film presents a feat of engineering, with challenges faced and overcome. The Trans Mountain Oil Pipeline Co., backed by American oil money, had been created by Parliament in March, 1951. By December, after brief regulatory hearings, a construction permit had been issued. Work began in early 1952; oil flowed by late 1953. Alberta crude had reached the Pacific.

Oil Across the Rockies, of course, made no mention of the Indigenous land the pipeline crossed. Today, the story of the stalled expansion of Trans Mountain has in large part revolved around the issue of Indigenous consultation. Last summer, after Ottawa bought the project, inadequate Indigenous consultation was one of two reasons the Federal Court of Appeal quashed the pipeline's approval.

As Ottawa works to redress these failings, the idea of Indigenous pipeline ownership has moved from intriguing concept to real possibility. Last month, The Globe reported that a group led by a former chief of a First Nation in Saskatchewan is working on a bid for a 51-per-cent stake in the Trans Mountain pipeline and expansion project, which is valued at more than \$13-billion. The group would finance it through Canada's big banks, with the debt backed by oil-shipping contracts. First Nations from across Western Canada would be invited to join in. The plan is billed as Project Reconciliation.

Project Reconciliation is vying against an effort led by the Western Indigenous Pipeline Group. That group is helmed by Chief Michael LeBourdais of the Whispering Pines/Clinton Indian Band, whose land in British Columbia's central Interior is on the pipeline route. Mr. LeBourdais's group plans to soon hold meetings to sign on Indigenous organizations along the pipeline. Mr. LeBourdais sees opportunity in direct environmental oversight – with seats on the pipeline's board of directors – and economic gain. “We want,” he says, “to participate in the economy fully, and equally.”

Canadians should welcome this ambition. It is a clear display that, when an industrial project is in the works, Indigenous people are not simply some box to check. Indigenous communities can be – and should be – seen

as partners. Too often, from the vantage of downtown Toronto or Calgary, a homogeneous voice is imposed on Indigenous Canadians, that of opposition to economic development.

But there is an array of views within Indigenous communities and between them, the same as politics anywhere. So while the Vancouver-area Tsleil-Waututh Nation led a strong opposition to Trans Mountain, others, such as the Western Indigenous Pipeline Group and Project Reconciliation, see a future in the project.

An Indigenous equity stake in Trans Mountain will not guarantee acceptance. But it would be a powerful symbol of doing business in Canada in the 21st century. The pipeline was built in the era of residential schools. Indigenous ownership could create tangible economic success stories, more so than apologies or perfunctory land-acknowledgment statements. Steady income from a profitable pipeline would be a welcome respite from the hard facts of life in places such as the Whispering Pines/Clinton Indian Band, where, according to the last census, only half the residents have a high-school degree and the unemployment rate is 25 per cent.

Indigenous ownership was once before a key element of a major pipeline. The Mackenzie Valley natural-gas project was first proposed in the 1970s, but stalled on Indigenous questions. Its early-2000s revival happened in part because of a deal with the Aboriginal Pipeline Group, a partnership of First Nations for a one-third stake in the pipeline. Although the project was scuppered by a rapidly changing gas market, the idea of Indigenous partnership was prescient.

The concept is taking wider hold. In 2017, the Mikisew Cree and Fort McKay First Nations in northeastern Alberta bought a 49-per-cent stake in a Suncor Energy oil sands storage facility for \$503-million. And this week, Alberta's United Conservative Party promised, if elected, to help First Nations invest in energy projects.

As for Indigenous investment in Trans Mountain, the possibility opens up opportunities for this desperately needed but long-stalled project. Alberta gets its pipeline, the national economy gets a boost and Indigenous groups get a piece of the pie – along with part ownership of the bakery. Sounds like a win-win-win.

Editorial, Globe and Mail, April, 2019

Breathing new life into Ontario's oil and gas industry

A London-based, family-run business is consolidating the oil and gas production in the province.

West Lorne - Ontario's oil and gas industry keeps largely below the radar. Many don't even realize there is oil and gas produced in this province. But every so often, touring the countryside, one sees the pumpjacks, bumping up and down, pulling oil out from below one of the layers of the earth's crust.

Small wells pull from shallow pools, in the Devonian layer; bigger wells pull from deeper pools in the Cambrian layer.

"You've got to have two faults to trap the oil."

Describing this process is second nature to Jennifer Nisker. She is the third generation of her family to search and drill for oil and natural gas in Ontario. She and two of her three siblings are vice-presidents of Lagasco Inc., which now owns about 85 per cent of Ontario's oil and gas production. The head office is in an industrial subdivision on Adelaide South, in London.

During the past few years, Ontario's oil industry has suffered just like the West, with dropping oil prices and cheap natural gas.

Farmers should be able to relate. "It's a commodity business. We're both price takers," said Nisker. "We can sell as much as we produce, but we don't set the price."

So Lagasco has been growing by mergers and acquisitions of companies that couldn't compete. The latest - and biggest - was purchasing the assets of Dundee Oil and Gas Ltd. after it declared bankruptcy. The deal finally closed last November, and it gives Lagasco four times the assets to manage. This includes offshore natural gas wells in Lake Erie, and a slate of new landowners.

"We're trying to cut costs and learn about the business," said Nisker.

Nisker, who graduated from the Ivey School of Business, in London, has her chartered accountant accreditation, as well as experience in mergers and acquisitions. She's not only been juggling business acquisitions, she's been starting a family. She has a four, three and "almost one" year old, and apologies for stifling a yawn as we barrel down a backroad in her black Suburban.

Nisker has become the public face of Lagasco, doing a lot of the public relations, with both landowners and politicians, trying to breathe new life into the industry.

Nisker's message to Ontario's Petroleum Institute, where she spoke recently, was: "we're open for business".

"We've got three drill ready plays right now that we're seeking partners for," she tells Ontario Farmer. Two of those involve drilling at existing sites, and the third is more exploratory.

"It's exciting to drill a new well!" says Nisker.

It's also expensive. "Drilling a well costs a million bucks. (But) if you hit something, it can be very lucrative." So, Lagasco is looking for joint venture partners where they contribute equipment and investors provide financing. Because it's big money with no guarantees, they've also worked with consortiums to spread the risk.

The first Cambrian oil pool discovery since the 1970s is the Paton Pool by Iona Station. Nisker knows the landowners associated with this site because seven years ago she and her brother negotiated the land leases. It's across the Highway 401 from a pool her grandfather developed, that's been producing oil for 45 years! The oil storage for the Paton site is tucked along the edge of a bush at the back of a neighbouring farm, so it's less visible. The tanks are surrounded by a corrugated steel wall, lined with an impermeable membrane to collect the oil if there happened to be a leak. This is where the oil is transferred to a tanker, and taken to Sarnia or to a new buyer, in Pennsylvania.

Paton's oil well is also situated at the back of the farm, where it's least visible, and accessed via a lane through the woods, rather than through the farmyard.

"I didn't want to look at it," Paton told Ontario Farmer. In fact he said he was "very reluctant" to sign another oil lease at all.

"When we bought the farm it was in the second or third year of a ten-year lease." When it expired, he refused to renew, and the company wasn't happy.

And so, Paton put a number of conditions in the lease agreement with Lagasco and "they did what they said they were going to do!" The well has now been pumping oil for six years or so. "It's been worthwhile, but it needs to be worthwhile, because there's increased liability," he said in a phone interview.

"Worthwhile" amounts to 12 per cent of the gross income from the well when it is producing - and these depend on both production, which is variable, and on price, which is also variable.

There are also exploration leases which offer annual, per acre, compensation for a fixed term, and surface leases, which compensate for the use of the land, on the basis of crop losses.

"Our biggest challenge is with the farmers who don't want a well anymore," said Nisker. Oil production declines over time, and revenue declines with it. So, some farmers feel the royalties no longer compensate for the annoyance.

"We get calls every time a farm sells, from the farmer asking, "Can you surrender the lease?" "We take a look at it, ...every time!" However, "Surrendering is rare. Most of the leases we have for a reason."

Nisker said one of the things landowners don't always understand is that the Ministry of Natural Resources and Forestry, which oversees oil production, requires a certain amount of land around the well to be leased before a well can be drilled. The area depends on the depth of the

well...so 6.25 acres is required for a 100-metre Devonian well and 50 acres for a 1,000-metre deep Cambrian well.

There's also been "reputational" damage to the industry, by Dundee, as production leases went unpaid, and abandoned wells went unplugged during the year of bankruptcy proceedings.

"We're trying to get that turned around," said Nisker. Also, because "nothing annoys landowners more than not getting an answer," Lagasco has also hired a company, Elexco, to manage its land leasing.

Mike Bossy, who invited Nisker to speak to the Canadian Association of Farm Advisors, said his clients report that Lagasco has been responsive... though landowners don't always like the response they get.

Nisker said the other concern is plugging abandoned wells. "We'll plug 15 wells this summer." This entails getting a rig on site to pull the rods out of the ground, and then pumping cement into the hole. Again MNR determines the depth of cement needed. Finally, the hole is cut down to below plough depth, then backfilled and graded.

Like farming, the oil and gas industry is cyclical. And like farm families, Nisker is not only prepared to ride out the cycles, she's looking for new ways to grow both the family business, and the industry.

*Frances Anderson
Ontario Farmer
June 25, 2019*



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2019 Upcoming Events

Board of Director's Meeting

September 13th, 2019

OPI Boardroom

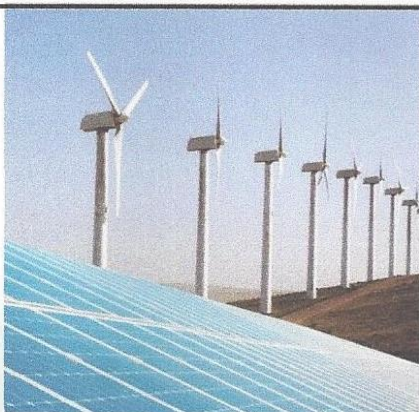
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Date TBD (November)

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