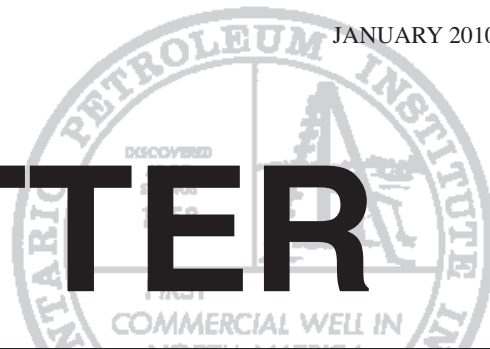


# OPI NEWSLETTER

JANUARY 2010



THE VOICE OF THE ONTARIO OIL AND NATURAL GAS INDUSTRY

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555 Southdale Road East, Suite #104  
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Fax: (519) 680-1621  
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Joe Van Overberghe, Executive Director  
Lorraine Fillmore, Executive Assistant

Encouraging responsible exploration and development  
of the oil, gas, hydrocarbon storage and solution-mining  
industries in Ontario  
ISSN 14802201

## TALISMAN ENERGY CANADA TO DIVEST ONTARIO ASSETS

Talisman came to Ontario through its purchase of Pembina back in 1997. Since the arrival of Talisman, the industry has continued to benefit from its presence, not only from its investment, but, also its leadership whether it be inside the industry or its support of the OPI. On behalf of the OPI I would like to thank Talisman, the company for its support and we look forward to continuing to work with those who work with the present day Talisman as they transition to the new organization should Talisman Energy Canada's assets be sold. Below is the letter from RBC Rundle. On page 10 is a summary of Talisman's Ontario assets.

Talisman Energy Canada ("the Company") has retained RBC Rundle ("RBC") as the exclusive agent for the disposition of its non-core oil and gas properties ("Properties") in Ontario. This letter outlines the sale process.

### Access to Confidential Information

Interested parties may access confidential data for the Properties by executing two original Confidentiality Agreements ("CA") in the form provided and attached hereto. The CA is also available for download on the RBC website. Executed CA's can be faxed, but must also be forwarded in original form. After receipt of the executed CA, RBC will issue a user name and password for access to a secure Virtual Data Room ("VDR") that hosts key data and data updates. Key data on the VDR will include among other things an engineering evaluation, land schedules and accounting reports.

Potential purchasers may book time in a physical Data Room at RBC's offices to view select well files, seismic, and other relevant data. The seismic data is loaded on a Seismic Workstation available in RBC's

offices. The interpretation software is GEOFRAME and a representative from Schlumberger will be made available on request to assist with Seismic data review. To book time in the Data Room or for questions regarding the CA please contact the undersigned.

Please note that CA's executed on behalf of unidentified parties will not be accepted. Parties unknown to the Company may be asked to defend their financial capability to execute a transaction of the scope of the offering.

CA's should be addressed to:

Talisman Energy Canada  
c/o RBC Rundle  
1950, 140 - 4th Ave S.W.  
Calgary, Alberta  
T2P 3N3  
Attention: Mark McMurray

### Timing of Offers

The Company has allowed approximately six weeks for the evaluation of the Properties. Offers for the Properties shall be submitted no later than 12:00 noon, MST, January 14th 2010. The effective date of the sale is January 1, 2010. A minimum of three weeks should be available to the Company before expiry of the Offer to allow the Company reasonable time to respond to the Offer. A closing prior to March 1, 2010 is expected.

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Alberta Land Decision	page 8 & 9
Commodities	page 12

## OPI Board of Directors

### PRESIDENT

Marko Pasic  
Elexco Ltd.  
(519) 686-0470

### 1ST VICE PRESIDENT

Ian Colquhoun  
Consultant  
(519) 642-4640

### 2ND VICE PRESIDENT

Scott Tompkins  
Talisman Energy Inc.  
(519) 324-5254

### SECRETARY

Morley Salmon  
Liberty Oil & Gas Ltd.  
(519) 938-8738

### TREASURER

Ray Neal  
Chartered Accountant  
(519) 243-2870

### DIRECTORS

Duncan Hamilton  
Greentree Oil & Gas Ltd  
(519) 681-9355

Terry Marsh  
T.W. Marsh Drilling & Servicing  
(519) 695-6060

Ian MacRobbie  
Enbridge Gas Distribution Inc.  
(519) 862-6017

Peter Miller  
Lagasco Inc.  
(519) 657-2151

Kerry O'Shea  
Dillon Consulting Limited  
(519) 650-9833

Tony Steele  
Polishuk, Camman & Steele  
(519) 858-8005

Doug Swayze  
S & S Energy Resources Inc.  
(519) 674-2358

### PAST PRESIDENT

Bill Fay  
Union Gas Limited  
(519) 436-5260

### MEMBER UPDATE

**Ballantry's** new address is;  
Ballantry Oil & Gas Inc.  
P. O. Box 279  
Mt. Brydges, ON.  
N0L 1W0  
Tel: 519-671-9532  
Fax: 519-264-9526

### New Members

**Muntazir Pardhan**, P. Eng.  
Environmental Engineer  
Dillon Consulting Limited  
1400 – 130 Dufferin Ave.  
London, ON N6A 5R2  
Ph: (519) 438-1288 ext 1301  
Fax: (519) 672-8204  
Email: mpardhan@dillon.ca  
**Timo Von Rudloff**, Consultant  
Liberty Oil & Gas Ltd.  
208 Canter Pl. S.W.  
Calgary, AB T2W 3Z2  
Ph: (403) 281-8875  
Fax: (403) 281-8875  
Email: timovr@telus.net

**Willie Bevan**, President  
Northeast Surveys  
112 Pearl Street  
Sarnia, ON N7T 5G5  
Ph: (519) 344-9721  
Fax: (888) 327-8160  
Email: wbevan@northeast-surveys.com

**Burns Cheadle**, Associate Professor  
Department of Earth Sciences  
The University of Western Ontario  
1151 Richmond Street  
London, ON N6A 5B7  
Phone: (519) 661-2111 x 89009 Fax  
(519) 661-3198  
Email: bcheadle@uwo.ca

**Paul Dwyer**, Business Development  
Manager  
Schlumberger Canada Limited  
2 Panther Place  
Mount Pearl, NL A1N 5B1  
Phone: (709) 748-7900 Fax (709) 748-  
7950  
Email: pdwyer@st-  
johns.oilfield.slb.com

**Robert Hearst**, Senior Geophysicist  
Quantec Geoscience  
146 Sparks Ave.  
Toronto, ON M2H 2S4  
Phone: (416) 306-1941 x226 Fax (416)  
306-1949  
Email: rhearst@quantecgeoscience.com

## NEW OPI PRESIDENT , MARKO PASIC, ANNUAL REMARKS

We began 2009 with a prorogued Parliament and an uncertain economic climate resulting from our worst recession since the Great Depression. Fortunately, our economy is recovering, albeit slowly, and the oil and gas industry will figure prominently in the recovery as well as the continued growth of our Province.

While the issues of climate change and renewable energy attract a lot of attention with the public, politicians and media, the exploration, development and storage of oil and gas within Ontario will continue to remain significant in terms of its contribution to Ontario's economy and energy needs. More importantly, there are significant undiscovered reserves within Ontario. Our challenge as an industry is to attract more entrepreneurs and investment dollars to

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**Craig McLay**, Business Development  
Weatherford Pipeline & Specialty  
Services  
1403-6th Street  
Nisku, AB T9E 7M7  
Phone: (780) 722-2300  
craig.mclay@ca.weatherford.com

**Dean Murney**, Manager – ALS  
Products  
CE Franklin Ltd.  
19 Ontario Crescent  
Devon, AB T9G 1H5  
Phone : (780) 499-5919  
Email : dmurney@cefranklin.com

**David Ryan**, C02 Storage Program  
Manager  
Natural Resources Canada – Canmet  
Energy  
1 Haanel Drive  
Ottawa, ON K1A 1M1  
Phone: (613) 996-3179  
Email: dryan@nrcan.gc.ca  
**Jeff Zondag**, Field Operations Manager  
Northern Cross Energy  
PO Box 129 Goderich, ON N7A 3Y5  
Phone: (519) 529-3040  
Fax (519) 529-7299

grow the industry. Even our licence plates advertise Ontario is "Yours to Discover"!

Several recent OPI initiatives should be recognized such as the opportunity to explore Clean Energy and more specifically the growing Biogas Industry. The OPI is also studying the creation of a Northeast Venture Exchange to bring development prospects and interested parties together.

Further the OPI and OGSRT are supporting the new University of Western Ontario's Department of Earth Sciences Bill Bell chair and will be reaching out to other Ontario Universities with a hope of supporting research in Ontario.

It is vitally important that we raise and promote the oil and gas industry's profile within Ontario and beyond its borders, whether it is with local politicians, students, and the investment community or industry members looking for new

opportunities. The Ontario Government is promoting their "Open for Business" program and the oil and gas industry should also be promoting itself in a similar fashion.

Regulatory certainty will continue to be the focus of the Board's ongoing discussions with the MNR. Various Board Committees will be asked to consider and review proposals for discussion with the MNR early in the New Year. Hopefully, outstanding issues about well security, facility licensing and examiners can be addressed in a constructive manner for all stakeholders. Membership input and participation is essential and welcome.

Joe and Lorraine are to be congratulated for all their efforts in organizing various events throughout the year, especially the Annual Conference in Sarnia. Lambton County's historical contributions to the birth and development of the oil and gas industry are well known and serve as a constant

reminder of the ingenuity, hard work and success of the industry's forefathers. Today, Lambton County is a leader in the multi-billion dollar cavern and gas storage sector.

I believe that 2010 will be a year of change and opportunity for all sectors within the industry. Best wishes for a healthy, happy and successful year to all OPI members, their families and friends.

Marko Pasic was elected President of the OPI at the Board meeting following the Annual General Meeting on November 11, 2009.

Please see page 2 for a complete list of your new OPI directors.

Thank you to Bill Partanen from Schlumberger Canada Limited and to Paul Druet from Enbridge Gas Distribution for their service to the OPI membership over the past two years.

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## BUSINESS LOAN INSURANCE PLAN

You may be just starting a business or maybe running an established business, which you have invested a lot of time, energy and money into.

Protecting your investment and the people you care about is part of solid business management. It is important to ensure that business debt is paid off if some untimely tragedy occurs. An Insurance Plan provides security to you, your family and partners, whether it is protecting you in times of disability or death. Additionally, your plan will protect your personal assets. Your family and business partners will have the financial security needed to get through a difficult period.

The coverage in your Business Loan Insurance plan helps to ensure that business debts are settled in the event of death and that personal insurance and assets are preserved for what they were intended.

Life Insurance Companies offer competitive and flexible coverage with many benefits that insurance plans carried by the Banks do not offer. While the premiums are much less, a life insurance policy through an Insurance Company, gives the beneficiary the flexibility to decide whether the proceeds should be given directly to the bank to pay the debt off or to invest the proceeds where it will produce larger returns. This investment could be put back into the business or redirected to another investment.

Make sure your business loan is properly protected. Call Penny Crossan at 1-866-383-5505 or 519-666-2631 for a no obligation quote.

## HARMONIZED SALES TAX INFORMATION

The 2009 Ontario Budget proposed a comprehensive package of tax changes. Central to this tax package is the proposed Harmonized Sales Tax for Ontario (HST), which, subject to legislative approval, would come into effect on July 1, 2010.

A formal notice was posted at <http://www.rev.gov.on.ca/en/notices/hst/03.html>

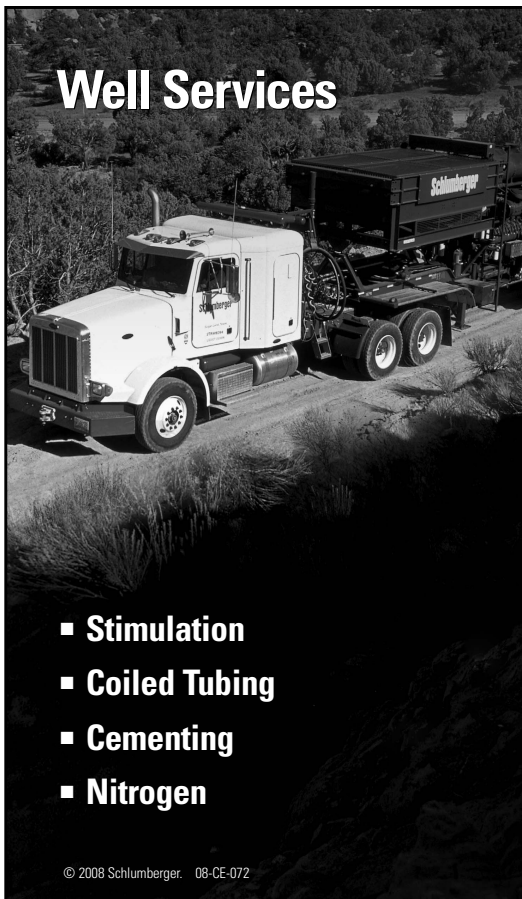
This Notice provides details of proposed measures that would build on Ontario's comprehensive tax package and help consumers and businesses transition to the HST.

The Notice provides general descriptions of transitional rules for the HST that will be proposed to be enacted in the federal Excise Tax Act (ETA). It also provides general descriptions of provincial measures that will be proposed to be enacted to wind down the applicable

provisions of the Ontario Retail Sales Tax Act (RSTA).

On the above linked website, that will be posted on the OPI website the following information is included:

Overview  
Introduction of HST  
Tangible Personal Property  
General Rules  
Subscriptions to Newspapers, Magazines or Other Periodical Publications  
Services  
General Rules  
Arrangements for Prepaid Funeral and Cemetery Services  
Passenger Transportation Services  
Freight Transportation Services  
Leases and Licences  
General Rules  
Commercial Parking Passes  
Intangible Personal Property  
General Rule  
Memberships (cont'd)



### Jay Rookes

Engineer-In-Charge,  
Ontario ..... 519-652-5053  
E-mail: ..... rookes1@slb.com

### Kamyar Ghavanini

Operations Manager,  
Eastern Canada ..... 709-748-7900  
E-mail: ..... kghavanini@slb.com

Schlumberger Canada Ltd.  
119 Exeter Road  
London, Ontario  
Canada N6L 1A4  
Ph: 519-652-5053  
[www.slb.com/oilfield](http://www.slb.com/oilfield)

# Schlumberger

## AGM SURVEYING & ENGINEERING – A NEW MEMBER PROFILE

AGM Surveying & Engineering is a unique firm practicing throughout Southwestern Ontario. It is a professional Ontario / Canada Land Surveying firm and a professional Civil Engineering firm combined into one. This provides the firm with the advantage of offering the combined services to those clients who need it, thus giving them the “one stop” advantage, or offering the individual services to others.

The firm is situated in London, Ontario at 553 Southdale Road East, right next door to the offices of the Ontario Petroleum Institute. However, it is soon to be moving around the corner to 3500 Whiteoak Road. There are 35 employees in total, including three Ontario Land Surveyors, a Canada Land Surveyor and four Professional Engineers. The offices can be contacted by phone at 519-685-5300, by fax at 519-685-5303 or by email found on the company web site, [www.agm.on.ca](http://www.agm.on.ca).

AGM Surveying & Engineering is pleased to become a new member of the Ontario Petroleum Institute. The firm looks forward to offering its services to other members of the Institute and to becoming an active member.

AGM’s roots date back to 1925 when Lt. Col. Samuel Archibald started out as an Ontario Land Surveyor and Professional Engineer in his hometown of Seaforth Ontario. The depression of the 1930’s found him moving his company to London for better work opportunities and to be closer to the militia base at Wolesley Barracks. In 1958 he teamed up with Jack Gray and Jack McKay to form the firm of Archibald, Gray & McKay. After Lt. Col. Archibald’s retirement, the firm practiced as an Ontario Land Surveying firm until 1996 when it again expanded into Civil Engineering. Since then AGM Surveying & Engineering has flourished as a combined services firm.

Using the latest in surveying and engineering technology, including GPS, CAD and robotic total stations, AGM has worked with the petroleum industry over the years on pipeline construction surveys, well location surveys and legal surveys for land acquisition and easements. The firm has also performed topographic surveys for site development and right-of-way design. Other clients include, municipalities, utility companies, the building and development industry, the legal profession, First Nations, Provincial and Federal Governments and landowners. To discuss AGM’s services further, people can contact one of Jason Wilband, OLS, CLS, P.Eng., Drew Annable, OLS, Rick Dykstra, P.Eng. or Bruce Baker, OLS. by calling 519-685-5300 or emailing [info@agm.on.ca](mailto:info@agm.on.ca).

AGM joined the OPI in 2009 as a Sponsoring Member

### **HARMONIZED SALES TAX INFORMATION (CONT'D)**

Admissions  
Passenger Transportation Passes  
Real Property (Other than Residential Housing)  
Other Transitional Rules  
Direct Sellers  
Continuous Supplies  
Budget Payment Arrangements  
Combined Supplies  
Progress Payments/Holdbacks  
Property and Services Brought into Ontario  
Imported Goods  
Imported Taxable Supplies  
Winding Down the RST  
General Rules  
Disclosure Requirements for Tax-  
Included Pricing in Transitional Period  
Final RST Returns  
RST Refunds and Rebates  
Assessments, Objections, Appeals and Enforcement



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# OPI 48th Annual Conference Program of Events

## Tuesday November 10

5:30 - 7:30 Welcoming Cocktail Party Sponsors: Baker Atlas and Harold Marcus Limited

## Wednesday November 11

7:00 Authors and Speakers Breakfast - Bluewater Room - Invite Only Sponsored by Elexco Ltd.

7:30 Coffee and Continental - Trade Show area  
Sponsor: Enbridge Inc

8:00-8:45 **Keynote: Dina Cover - TD Economics**  
**“An Economic Update, and look forward at Oil and Gas”**  
Keynote Sponsor: Elexco Land Services, Inc.

**Session #1 ‘Promoting Oil & Gas exploration and development in today’s Ontario Market’** -Session Chair - Heather Stuart, M.E.S., P.Geo. Associate Dillon Consulting Limited  
Session Sponsor: Elexco Land Services, Inc.

8:45-8:50 Ian Colquhoun, PhD, Consultant - "Northeast Prospect and Venture Exchange"  
8:50-9:10 John Mandich, Director of Business Development, EnergyNet.com “Real-Time Internet Oil & Gas Property Acquisitions and Divestitures”  
9:10-9:35 Dan Weir, Consultant “Investing in Ontario”

**Session #2 – ‘Shale gas in Ontario and Quebec, can we make this happen?’**-Session Chair - Heather Stuart, M.E.S., P.Geo. Associate Dillon Consulting Limited  
Session Sponsor: Wellmaster Pipe & Supply Inc.

9:40-10:05 Marianne Molgat, Team Lead Quebec/Ontario, Talisman Energy Inc “Quebec Shale Gas Play or Offshore Thorold-Grimsby and Whirlpool Sandstone update with core display”  
10:05-10:30 Lee Fortner, Geologist, Ontario Ministry of Natural Resources – “Shale gas opportunities in southern Ontario – an update”

**10:30-11:00 Coffee Break**-Sponsored by C.R. Wall & Co Inc and Oil Patch Services

**Session #3 - ‘Reconnaissance Tools – reduce your risk in Oil and Gas Exploration’** Session Chair - Cora Carriveau Dillon Consulting Limited  
Session Sponsor: Harrison Pensa LLP

11:00-11:25 Terry McConnell, Managing Director, Fugro Airborne Surveys Corp “Falcon Airborne Gravity Gradiometry for Oil and Gas Exploration”  
11:25-11:50 Robert Hearst, Chief Geophysicist, Quantec Geoscience Limited “Non Seismic Applications of Magnetotellurics for Oil and Gas Exploration”  
11:50-12:15 Dale Sutherland – Activation Labs “Soil Gas Hydrocarbon (SGH) Geo-chemistry Detects REDOX Cells to Locate Buried Oil and Gas Plays”  
12:30 AGM Lunch: Sponsor Talisman Energy Inc.  
1:20 **Keynote: Roy C. Warnock, Vice President & General Manager Husky Oil Operations Limited**

## “Husky and the Oil Sands”

2:00-2:30 AGM

2:30-2:45 **Coffee Break** - Sponsored by Jim McIntosh Petroleum Engineering Ltd, Penny Crossan Insurance & Financial Services and Ray Neal Accountant

**Session #4 – ‘After the big discovery and its development, what are the environmental impacts on Ontario’s Oil and Gas Industry?’** Session Chair - Mike Learn, Union Gas Limited  
Session Sponsor: The Oil Well Supply Co (1980) Ltd.

2:45-3:10 Cora Carriveau - Environmental Scientist, Dillon Consulting Limited “Application of the Ministry of the Environment (MOE) Soil and Groundwater Standards at Oil and Gas Facilities in Ontario and the Implications of Proposed Changes to Regulation 153/04”  
3:10-3:35 Heather Stuart - Environmental Scientist, Dillon Consulting Limited “Triggers for Phase I and II Environmental Site Assessments at Oil and Gas Operations in Ontario”  
3:35-4:00 Muntazir Pardhan, P.Eng - Environmental Engineer, Dillon Consulting Limited “Remedial Options for Soil Impacts at Upstream Oil and Gas Facilities in Ontario”

**5:30-7:30 Wine and Cheese Reception**  
Sponsors: Torque Energy Inc., Black Creek Well Service Inc., Elite Seismic Processing, Inc, Holland Testers Ltd. and T.W. Johnstone Company

## Thursday November 12

7:00 Authors and Speakers Breakfast - Bluewater Room - Invite Only Sponsored by Elexco Ltd.

7:30 Coffee and Continental - Trade Show area Sponsor: Budd Energy Inc.

8:30-9:00 **Keynote: David L. Yager, Chairman of the Board and Chief Executive Officer, HSE INTEGRATED LTD.**

**Session #5 – ‘Big Picture projects by Ontario-based companies’**  
Session Chair - Shelley Kilby, Union Gas Ltd  
Session Sponsor: Dillon Consulting Limited

9:00-9:25 Peter Budd – Budd Energy Inc. “Huron County - Ontario’s Storage Frontier”  
9:25-9:50 Steve Pardy, P.Eng. - Manager, Reservoir Eng/Drill, Underground Storage, Union Gas Ltd “Storage Reservoir Hazard Assessment: A Modified “What-if” Application for CSA”  
Z341.1-06 joint paper with Gordon Cowen, UGM Engineering Ltd.  
9:50-10:15 Mr. Robert Zschuppe - Wavefront Technology Solutions Inc. “An Introduction to Powerwave for Enhanced Floods and Well Stimulations”  
10:15-10:45 Coffee Break Sponsors Liberty Oil & Gas Ltd., Weatherford Pipelines & Specialty Services and Weatherford Wellheads Systems

# OPI 48th Annual Conference Program of Events

## Session #6 – ‘Cap and Trade and New Power Industry’

Session Chair - Muntazir Pardhan, P.Eng., LEED AP  
Dillon Consulting Limited, Session Sponsor: Harrison Pensa LLP

10:45-11:10 Andrew Hewitt – Ministry of Natural Resources, “Ontario’s Cap and Trade”

11:10-11:35 Robert Craig - Director, Strategy and Technology, Integrated CO<sub>2</sub> Network - ICO<sub>2</sub>N “ A review of Canada’s CO<sub>2</sub> Initiative and Cap and Trade”

11:35-12:00 Rupp Carriveau Ph.D. P.Eng., Associate Professor and Director, University of Windsor “Compressed Air Energy Storage (CAES) in Southern Ontario”

12:10-12:50 Lunch Sponsored by Charles Fairbank Oil Properties Ltd. and Schlumberger Canada Ltd.

12:50-1:30 **Keynote Address by Hon. Donna Cansfield, MPP Etobicoke Centre, Minister of Natural Resources**

**Session #7 – ‘Ontario Cavern Storage - Invisible Billion Dollar Industry’** Session Chair - Joe Van Overberghe, OPI Sponsor: Budd Energy Inc.

1:45-2:10 Terry Carter, Chief Geologist, Ministry of Natural Resources “Bedded Salt in Ontario: Geology, Solution Mining and Cavern Storage”

2:10-2:35 Jug Manocha, Operations Engineer , Ministry of Natural Resources “Z341 Storage of Hydrocarbons in Underground Formations - Overview and the 2010 Edition”

2:35-3:00 John Harwood, Sr. Reliability Inspector, Nova Chemical (Canada) Limited “Experience with Cavern Wellhead Replacements”

## 48TH ANNUAL OIL AND GAS CONFERENCE SPONSORS

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Harold Marcus Limited  
Oil Gas & Salt Resources Library  
Talisman Energy Inc  
Torque Energy Inc.  
Union Gas Limited

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Charles Fairbank Oil Properties Ltd.  
Dillon Consulting  
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Elite Seismic Processing, Inc.  
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Holland Testers Ltd.  
Schlumberger Canada Ltd.  
T.W. Johnstone Company

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Liberty Oil & Gas Ltd.  
Weatherford Pipelines & Specialty Services  
Brisco and O’Rourke

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Ray Neal Accountant

## EXHIBITORS

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**Petro Engineered Products Ltd.**

**Province of Newfoundland and Labrador**

**Weatherford Canada**

**Wellmaster Pipe & Supply Inc.**

**Stream Flo Industries**

**Talisman Energy Inc.**

## **ERCB'S RULLINGS ON VALIDITY OF FREEHOLD OIL AND GAS LEASES**

During the last couple of years the Energy Resources Conservation Board of Alberta has been called upon to rule on the validity of freehold oil and natural gas leases, and has asserted its jurisdiction to do so, striking down two leases. Prior to 2008, the validity of leases had only been contested in the courts. The emergence of the ERCB as an alternative forum for litigating exactly the same issues is an interesting development which has some important implications from a procedural and potentially a substantive point of view.

Over the past 50 years, the freehold oil and gas lease has provided a fertile ground for court challenges. A great deal is potentially at stake. In some cases, leases covering millions of dollars worth of reserves have been struck down. A fascinating body of law has developed, focussing on the habendum and several key clauses of the lease, including the shut-in clause, the default clause and the offset drilling clause.

ERCB Decision 2008-047, Desoto Resources Limited

In mid-2008 the Alberta Energy Resources Conservation Board (ERCB or the Board) made what to many was a surprising move by suspending a well licence previously issued by the Board itself on the ground that the licence-holder no longer held a valid lease: ERCB Decision 2008-047, Desoto Resources Limited (June 18, 2008). Desoto claimed to have the necessary working interests by virtue of some 1970's-vintage leases granted by PanCanadian Petroleum Limited. An issue concerning the validity of Desoto's leases led to an action being commenced in the Court of Queen's Bench between Desoto and PanCanadian's successor, EnCana Corporation. While the litigation was ongoing EnCana wrote a letter to the Board requesting a review of the well licence on the ground that Desoto was

not entitled to the licence because it did not hold a valid lease.

The Board held a hearing and later issued a Decision which reads much like a court ruling, reciting the important evidence which had been adduced before it including the key provisions of the leases. After considering the jurisprudence, the Board decided that the leases had in fact terminated and that a well Desoto had drilled under the authority of its licence should be shut in.

The leases in question had been granted in 1975 for primary terms of three and five years "and so long thereafter as any of the leased substances is being produced or is capable of production in paying quantities from a well or wells on the said lands". Prior to the drilling of Desoto's successful well, the last well on the lands had stopped producing in 1985.

The central issue was whether the suspended well had remained "capable of production in paying quantities" up to the time Desoto drilled its own well. After reviewing the case law, the Board held that for a well to be capable of production in paying quantities, it had to be able to begin flowing if it was "turned on" without equipment being added or repairs made. In this case, there was no evidence that the old well could produce in this sense. The leases had therefore long since terminated.

Desoto applied for leave to appeal to the Court of Appeal, apparently concentrating on the argument that the ERCB had no jurisdiction to rule on the validity of the lease. Madam Justice McFadyen ruled that there was no merit to this argument, and so dismissed the application: Desoto Resources Limited v. Energy Resources Conservation Board, 2008 ABCA 349 (Oct. 9, 2008).

ERCB Decision 2009-037, OMERS Energy Inc.

After the Board made the ruling that it did in the Desoto case – and its jurisdiction to do so had been upheld by

a judge of the Court of Appeal in chambers – it is not surprising that interested parties started to invite the Board to shut in other wells held under doubtful leases. A second case, ERCB Decision 2008-037, OMERS Energy Inc. (Decision 2009-027) arose in a similar fashion – that is, a letter being written to the ERCB arguing that the lessee's well licence was invalid. A difference this time was that the challenge was brought not by the lessor but by a toplessee (a company which takes a new lease, to come into effect upon the original lease being struck down).

The leases in this case were also for a five-year term. Another similarity to the Desoto case is that the lessee, OMERS, relied upon a shut-in well as continuing the leases beyond their primary term. However, the focus of attention in this case was the leases' shut-in clause, which provided that the leases would continue in force after the expiration of the primary term if there was a well on the lands which was "capable of producing the leased substances". The Board decided that, for a suspended well to be capable of producing the leased substances, it had to have the ability in its existing configuration and state of completion to produce leased substances in some meaningful or material amount. A miniscule amount would not suffice.

Prior to being shut in, the well in question had experienced a high water level in the wellbore. OMERS believed that a poor cementing job was responsible for this problem and had attempted two operations to address the problem. The Board considered that "it is not clear that after [the date it was shut in, the well] was capable of producing without remedial operations". The Board therefore held that the leases had terminated and were not saved by the shut-in clause.

In this case, an application for leave to appeal was successful: OMERS Energy Inc. v. Energy Resources Conservation Board, 2009 ABCA 273 (August 11, 2009). Madam Justice Paperny granted

## **ERCB'S RULLINGS ON VALIDITY OF FREEHOLD OIL AND GAS LEASES (cont'd)**

leave only on the question of whether the Board had erred in its interpretation of the phrase "capable of producing the leased substances".

### **Potential Implications of this Development**

It seems that the Board was right in holding that it does have jurisdiction to rule on the validity of leases, as it does on other questions of law which arise incidentally to the Board's statutory authority. To be entitled to hold a well licence, a person must satisfy the Board that it is "a working interest participant and is entitled to the right to produce" oil or gas from the well: Oil and Gas Conservation Act, s. 16.

However, the Board's new practice of exercising this jurisdiction over this specific type of issue raises some interesting issues and potential concerns. Among these are the following:

The Courts continue to have an unquestionable jurisdiction over exactly the same issue of lease validity. This raises the possibility that there could be two competing sets of proceedings, a possibility which in turn could give rise to some possible conundrums. For example, will a ruling by the ERCB be treated as conclusive (as res judicata) if one of the parties – following an adverse decision by the ERCB – insists on continuing to litigate the issue in court? What weight will ERCB decisions be given by the courts in future decisions? Does it matter that the Board is not a court of law? The decisions in both Desoto and OMERS appear on their face to be soundly reasoned (although the OMERS decision has generated controversy and is under appeal). In both cases, the Board undoubtedly benefited from the fact that some of the Board members sitting on those cases were lawyers (one of the three members sitting on the Desoto case and two of the

three in the OMERS case). Arguably, the Board is better equipped than a court would be to address some of the technical issues concerned with (e.g.) the reasons a well was shut in or has remained shut in.

Are any concerns raised by the fact that the parties to an ERCB hearing do not have the benefit (or burden) of all of the procedures inherent in a court action, such as the ability to compel documentary production or the right to conduct examinations for discovery? Are these procedural differences likely to lead to different results in some types of cases?

To the extent that the task of challenging a lease may be easier (in the sense of being more cost-effective and more expeditious) in a proceeding before the ERCB, is the option to challenge leases in this manner likely to encourage such challenges by lessors or the practice of top-leasing?

We shall see if it proves easier to persuade the Board to shut in a well on an interim basis than it is to obtain an interim injunction or another type of order from a court having a similar effect. The differences in practice might have the potential to strengthen the hand of lessors.

Will the Board's public interest mandate have an impact on its decision-making in these cases? In a civil lawsuit, the court is only interested in doing justice between the parties. In the OMERS case, the Board gave standing to a lobby group, the Freeholders Petroleum & Natural Gas Owners Association, which was allowed to make arguments in support of the position of the toplessee. This raises possible issues of fairness. Some potentially troublesome issues could arise if the Board were asked to rule on the validity of a Crown lease. While the Board is not an arm of the provincial Crown, there could be an apprehension that it was not a completely impartial body in any contest between the Department of Energy and an oil company Crown lessee.

For these and other reasons, future rulings by the Board on the validity of leases will be watched with great interest.

A cautionary note is that the ERCB does not have unlimited jurisdiction to rule on the validity of oil and gas leases. There must be a connection between that issue and a matter falling under the Board's jurisdiction, such as whether the holder of a well licence has title to the relevant working interests.

(John Ballem is the author of *The Oil and Gas Lease in Canada*, now in its fourth edition, and is widely recognized as the leading authority on this subject.)  
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**TALISMAN DIVESTMENT HIGHLIGHTS**

**Ownership:**

100% Operated Production, Greater than 65% Average Working Interest

**Acreage**

:  
967,478 Gross Acres  
646,139 Net Acres  
Production: (September 2009)  
Natural Gas: 11.6 MMcf/d  
Oil and NGLs: 849 bbl/d  
Barrels of Oil Equivalent: 2,788 boepd

**Operating Income:**

24 \$MM 2009 estimate  
Operating Expense:  
Offshore: 10.73 \$/boe  
Onshore: 12.41 \$/boe

**Marketing:**

Premium to Alberta prices

**Reserves:**

Total Proved 66,265 MMcf, 1,961 Mbbl (95% are Developed Producing), RLI 16.7 – yrs  
Probable 12,678 MMcf, 742 Mbbl (93% are Probable Producing)  
Proved + Probable 78,943 MMcf, 2,703 Mbbl (82% are Proven), RLI – 19.2 yrs  
AJM Petroleum Consultants, Effective November 30, 2009

**Future Development:**

125 Locations identified to date; five years of drilling  
53 Behind pipe completions identified to date  
Shale Gas development including Antrim, Utica and Marcellus  
Carbon Capture and Storage (CCS)  
Natural Gas Storage  
Infrastructure Optimization

**Additional Upside:**

Horizontal Re-development  
Gas Price Differentials

Opening of the United States side of Lake Erie to development

**ONTARIO ASSET DEVELOPMENT**

The intent of this document is to provide a comprehensive informational package to guide potential purchasers of the Talisman Energy Canada’s assets in Ontario, Canada, in their decision to execute a Confidentiality Agreement (CA), and participate in the divestment process.

**Overview**

Talisman Energy Canada is currently the largest oil and gas producer in Ontario. Their assets consist of a 65% operated position, in several gas fields offshore Lake Erie and a 100% operated position in an Ordovician light oil play onshore and nearshore in Southwestern, Ontario, Canada.

Current production, net to Talisman, before deduction of royalty burdens, is 11.6 MMcf/d of natural gas, 837 bbl/d of 40° API crude oil and 12 bbbl/d of natural gas liquids. Both oil and gas receive a price premium relative to Western Canada supply due to their product quality and proximity to Eastern Markets.

The large land base, of 967,478 gross acres and 646,139 net acres, is also prospective for unconventional Shale Gas development, gas storage, and carbon capture storage. The extensive facilities, vessels, and pipeline infrastructure underpins future

conventional and unconventional development.

**History**

Talisman acquired the majority of their Ontario assets through their purchase of Pembina Resources in late 1997. Pembina Resources had acquired their initial interests in the East Lake Erie field and Onshore assets in the late 1970’s. At the same time Consumers Gas was developing the Central and West Central fields in Lake Erie and subsequently became Telesis Resources. Telesis was also the operating partner onshore. Pembina Resources, with NAL as partner, expanded their position in 1994 through the acquisition of Telesis and became the primary operator of gas production from Lake Erie.

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## In Memoriam...

Samuel Thomas Pees, 83, of Meadville, respected geologist, oil field historian, writer and lecturer, died Sunday, Dec. 27, 2009, at the Meadville Medical Center.

Born Nov. 16, 1926, in Meadville, Sam Pees was the son of Henry Chester and Dorothy M. Cook Pees.

Sam graduated in 1950 from Allegheny College with a BS in geology and in 1959 from Syracuse University with an MS in geology.

He served in the U.S. Army in the Philippines and South Korea during World War II. After the war in 1948, he worked in the Cape Yakataga area of Alaska with the United States Geological Survey. Beginning in 1953, Sam worked as a petroleum geologist for leading petroleum and oil companies, traveling extensively to South America, including Venezuela, Peru, Argentina, southeast Asia, including Indonesia, Australia and the South Pacific.

In 1978, Sam opened an oil and gas consulting company (Samuel T. Pees & Associates) in Meadville, which specialized in deep gas exploration in the northern Appalachian Basin. He retired in 1998.

Sam Pees was a prolific writer of geological and historical papers, which were published in numerous journals, including the Petroleum History Institute Journal, the American Association of Petroleum Geologists Bulletin, and Pennsylvania Geology. He also contributed numerous ideas, research and text for bronze historical markers placed by the Pennsylvania Historical and Museum Commission (PHMC) commemorating significant individuals, events and landmarks in northwestern Pennsylvania. He served as president of the Drake Well Foundation for several years.

Mr. Pees also shared his knowledge, insights and findings through lectures. He was an engaging speaker and educator, thanks to his passionate interest in his subject.

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## Ontario Crude Oil Prices

### SWEET REFERENCE PRICE

825 kg/m<sup>3</sup> reference density

0.5% reference Sulphur by weight

December 2009	\$488.84
November 2009	\$505.60
October 2009	\$505.60
September 2009	\$474.88
August 2009	\$488.71
July 2009	\$452.47
June 2009	\$484.29
May 2009	\$424.38
April 2009	\$379.46
March 2009	\$383.49
February 2009	\$285.80
January 2009	\$292.60
December 2008	\$281.30
November 2008	\$414.97
October 2008	\$556.82
September 2008	\$682.84
August 2008	\$779.24
July 2008	\$858.92
June 2008	\$866.69
May 2008	\$800.96
April 2008	\$725.40
March 2008	\$676.38
February 2008	\$598.91
January 2008	\$606.99
December 2007	\$579.92
November 2007	\$576.67
October 2007	\$519.53

## Natural Gas Prices

Reference Daily Weighted Average Price (\$US/MMBtu converted to \$Cdn/MMBtu)

### NGX Dawn Daily Pricing

December 2009	\$5.76	December 2007	\$7.50
November 2009	\$3.84	November 2007	\$6.62
October 2009	\$4.37	October 2007	\$6.84
September 2009	\$3.04	September 2007	\$6.01
August 2009	\$3.66	August 2007	\$6.27
July 2009	\$3.90	July 2007	\$6.64
June 2009	\$4.54	June 2007	\$7.80
May 2009	\$4.75	May 2007	\$8.59
April 2009	\$4.67	April 2007	\$8.42
March 2009	\$5.10	March 2007	\$8.70
February 2009	\$6.13	February 2007	\$9.11
January 2009	\$6.92	January 2007	\$7.64
December 2008	\$6.91	December 2006	\$8.36
November 2008	\$8.31	November 2006	\$8.48
October 2008	\$8.25	October 2006	\$6.63
September 2008	\$8.04	September 2006	\$5.70
August 2008	\$8.98	August 2006	\$7.94
July 2008	\$12.01	July 2006	\$6.76
June 2008	\$13.36	June 2006	\$7.01
May 2008	\$11.69	May 2006	\$7.12
April 2008	\$10.67		
March 2008	\$9.86		
February 2008	\$8.83		
January 2008	\$8.16		

Note: Pricing is reflective of daily spot pricing averages and may vary from the pricing you received or paid.

Recent daily pricing available at:

<http://www.ngx.com/marketdata/UDSPOT.html>

# 2010 Upcoming Events

## 49TH ANNUAL OPI OIL AND GAS CONFERENCE IN PARTNERSHIP WITH IOGA OF NY

October 26-28 2010  
Sheraton-on-the-Falls  
Niagara Falls, On

## OPI GOLF

Ridgetown, On  
June 2, 2010

## OPI SPRING MEMBER MEETING

March 4, 2010  
Best Western Stoneridge Inn  
Hwy 401 and Col Talbot  
London, ON



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