

# **FREEHOLD PETROLEUM & NATURAL GAS OWNERS ASSOCIATION**

## **MINUTES - ANNUAL GENERAL MEETING - APRIL 18, 2009**

The Freeholder Owners Association (FHOA) held its annual general meeting at the Crossroads Church, Red Deer, AB on Saturday, April 18, 2009 at 10:00 A.M. (Please refer to accompanying slides)

### ***Slide One***

Chairperson, Mrs. Else Pederson, opened the meeting by warmly welcoming the members present and thanking everyone for coming to this the Association's 10<sup>th</sup> annual general meeting.

She then introduced those at the head table including FHOA Directors David Speirs and Brad Murray and Kirsten Millung, Sr. Analyst, Freehold Oil and Gas Services who she indicated would be making presentations during the afternoon seminar. Other FHOA directors present were Leanne Walton, Sybil Evans, Ross Watson, Orleen Pearson, Pat MacDonald, Douglas Rae, Joe Lehane, Jim Harriman, Frank Russell, and Doug Leeds, some of whom were busy with duties in the lobby. Absent, but standing for re-election, were directors Michael Niven and Keith Wilson.

Mrs. Pedersen advised that Energy Minister Knight and the MLA's from south-central Alberta were all invited to attend, however, Minister Knight sent his regrets as did most of the MLA's.

Mrs. Pedersen also advised that Brenda Curle, Dept Energy, Freehold Mineral Tax sent her regrets but congratulated FHOA on its 10<sup>th</sup> anniversary as an organization serving freeholders.

Mrs. Pedersen then introduced Cal Dallas, MLA for Red Deer South and Ron Wagner of the ERCB, Field Office, Red Deer present in the audience.

### ***Slide Two***

Mrs. Pedersen then gave a brief overview of the agenda. She advised that she expected the annual general meeting to take about one and one half hours. She indicated that she would briefly review what the Freehold Owners Association is, why the association was formed and what its mandate was. Then the main issues that FHOA addressed in 2008 and what we accomplished would be reviewed. Following this, FHOA's year end financial statements would be presented, the association's directors and auditor for the coming year would be elected. Mrs. Pedersen advised that she would then speak to FHOA's future direction and conclude the formal part of the meeting around 11:30 a.m. Following a one hour lunch break, an information seminar would begin at 12:30 p.m..

Mrs. Pedersen advised that during the lunch hour a number of tables would be set up in the foyer.

Ross Watson, one of FHOA's directors, would man a donations table. Mrs. Pedersen indicated that the association desperately needed donations to fund FHOA interventions in ongoing legal actions & regulatory hearings which may materially impact the property rights of freehold mineral owners.

Joe Lehane, another of our directors and a lawyer with the legal firm of Miller, Lehane and Wild would be manning a table in the foyer dealing with estate planning for freeholders.

Jim Harriman, Just Freehold Energy Corp. or JFEC's Vice President of Land and another of FHOA's directors, would be at a table to provide information on JFEC. Mrs. Pedersen advised that in her six years as President of FHOA, the accomplishment for which she took the greatest pride was the association's drafting of the freeholder-friendly FHOA Lease. She also advised that FHOA fostered the formation of JFEC specifically to use the FHOA Lease. Mrs. Pedersen stated that Just Freehold had entered into 695 FHOA leases with freehold owners and that these leases collectively represented approximately 27,000 acres leased by JFEC. She also stated that Jim Harriman had advised her that slightly more than a quarter of these properties had been drilled to date by Just Freehold and that in March of 2009 the company had completed its 20th well, all of which have been successful.

Mrs. Pedersen also stated that it was her understanding that more than 2/3rds of JFEC's investors were freehold owners. As one of those shareholders, she was gratified that JFEC had succeeded in using the FHOA Lease to establish itself as the freeholders' energy company and that so many of FHOA's members had supported JFEC by becoming investors.

She also advised that Kirsten Millung, a senior analyst with Freehold Oil and Gas Services Ltd. or FOGS, would also have a table in the foyer. FHOA fostered the formation of FOGS to provide needed services to freehold owners at a reasonable cost. Currently FOGS provides both offset recovery and mineral rights evaluation services and has plans to expand these services.

Mrs. Pedersen advised that both JFEC and FOGS have relationship agreements with FHOA. Under these agreements, JFEC pays FHOA \$100 each time it leases a tract of freehold mineral rights using FHOA Leases. In the case of FOGS, a portion of the recovery or evaluation fees charged by FOGS flows back to FHOA. She advised that with FHOA's limited financial resources and the many issues the association faced, the funds generated by these relationship agreements were of great importance to FHOA.

Mrs. Pedersen then advised that the afternoon information seminar would be the 28<sup>th</sup> information seminar that FHOA had sponsored since the association was organized back in 1999. In each seminar we've tried to focus on at least one particular issue critical to freehold owners.

She indicated that FHOA was privileged to have Mr. Dan McFayden, the ERCB's new Chairman as one of our speakers. Mr. McFadyden together with Trevor Dark, ERCB Chief Operating Officer, Bob Willard ERCB, Sr Analyst, David Sheremata, ERCB Communications, and Gordon Miller, ERCB Board member were expected to arrive before noon. Mr. McFayden intended to discuss the role of the ERCB in the context of opportunities and responsibilities. Following his talk, he had agreed to answer questions previously submitted to the ERCB by FHOA. Mrs. Pedersen stressed that Mr. McFayden and other senior Board personnel were present as FHOA's guests and that as Chair she expected them to be treated with courtesy. She indicated particular concern with the current controversy surrounding Bill 19 – some of FHOA's directors have been closely involved in this controversy. She stated that while FHOA understood the concerns that surface owners have raised with Bill 19, FHOA's mandate is to deal with subsurface issues. She indicated that it was incumbent on those present to use the opportunity presented to question the ERCB Chair on subsurface issues and that she would not entertain questions from the floor on Bill 19.

Mrs. Pedersen advised that following Mr. McFayden's talk, David Speirs, FHOA's Technical Committee Chairman and a director of FHOA, will discuss how shut-in or suspended wells can

impact your property rights. She indicated that the next speaker, following a coffee break, would be Brad Murray, a professional engineer, one of FHOA's directors and the President of Just Freehold Energy Corp. who planned to discuss the FHOA Lease and how Just Freehold is using this lease to build a successful energy company. Mrs. Pedersen stated that the final speaker would be Kirsten Millung, who, as she had previously mentioned, was a senior analyst with Freehold Oil and Gas Services and who would discuss the services which FOGS currently provides and potential future services.

With the approval of those present, Mrs. Pederson asked Mae Sorenson to act as Scrutineer and Marilyn Hoy to act as Secretary.

Mrs. Pederson advised that the notice calling the Annual General Meeting, an information circular, and a form of proxy had been mailed on March 10<sup>th</sup>, 2009 to all members of the Association as of the record date of March 14<sup>th</sup>, 2009. She directed that the Declaration of Mailing be kept by the Secretary with the records of this meeting.

Mrs. Pederson advised that the by-laws of the Association provide that a quorum for the transaction of business shall consist of 2 members present in person and entitled to vote at the meeting. She stated that she was satisfied that a quorum was present and advised that the Scrutineer's Report certifies that there were over 300 members present and a further 158 members of the Association represented by Proxy. She directed that a copy of the Scrutineer's Report be kept by the Secretary with the records of the Meeting.

Mrs. Pederson then declared that the meeting had been regularly called and properly constituted for the transaction of business.

Mrs. Pederson stated that the first item of business was the Director's Report for the year ended December 31, 2008, following which the Financial Statements of the Association and Auditor's Report would be presented.

## **REPORT OF THE DIRECTORS**

### ***Slide Three***

Mrs. Pedersen advised that the Freehold Owners Association is a federally-incorporated not for profit association currently registered to carry on business in Alberta, Saskatchewan and Manitoba. She stated that FHOA had been organized in 1999 with the help of Alberta Energy.

Mrs. Pedersen stated that FHOA's initial membership was a mere 55 freehold owners but that more than 4,200 freeholders had now joined. Based on information provided in membership application forms, FHOA currently represents approximately 22,000 freehold owners.

She advised that each member of the Freehold Owners Association has one vote in the election of those individuals who control the affairs of the association - the directors and president.

She stated that FHOA's board consisted of ordinary citizens like herself who happen to own freehold mineral rights together with a number of industry professionals who dedicate their time and effort to FHOA because they recognize the injustices that many freeholders have historically been subjected to.

### ***Slide Four***

Mrs. Pedersen then asked the audience how many were here for the first time and commented on the large number of first time attendees.

She then described the threefold mandate of FHOA for those not familiar with the organization. Firstly, to provide education and information to individual owners of freehold mineral rights, secondly to research issues of concern to freeholders, and thirdly, to act as a common voice for freehold owners.

### ***Slide Five***

Mrs. Pedersen then discussed the education and information portion of FHOA's mandate. She stated that oil and gas exploration and development is a complex business governed by complex rules and regulations prescribed by the ERCB and that only the most senior and experienced managers in the energy industry fully understand these complexities. Because most individual freehold owners have no training or experience in oil or gas exploration and development, most find themselves at a tremendous disadvantage when it comes to dealing with their mineral rights.

She noted that the problems faced by freeholders were compounded by the freehold lease agreements presented to them for execution – agreements drafted by teams of oil and gas lawyers to fully protect their energy industry clients in language that ordinary people seldom fully understand.

She also noted that the mineral rights owned by most freeholders have typically been passed down from their forefathers and form part of the family's heritage.

She stated that freeholders need information and education to help protect their heritage and maximize its value. FHOA provides information and education to help freeholders deal with their valuable non-renewable resources in a number of ways.

Firstly, through its web site.

Last year, FHOA's site consistently received in excess of 100,000 hits per month from more than 2,000 unique visitors. Mrs. Pedersen stated that it has been obvious to FHOA for a number of years that its site is being used by many individuals who are not members of FHOA. This would be fine if we were a government agency, but FHOA is a group of unpaid volunteers and our only source of funding for the many issues we have to deal with is our membership.

Mrs. Pedersen indicated that for the past 3 years FHOA has planned to update its website and make most of it only available to members. She stated that she expected that this would have the effect of increasing FHOA's membership. She advised that this year, FHOA's technical committee chairman had committed to making the website update a top priority.

Secondly, FHOA provides education and information through mineral rights information seminars. In 2008, FHOA held three information seminars – one in Red Deer, one in Fort Saskatchewan and the other in Trochu. Topics covered by guest speakers included estate planning for freehold mineral owners, the coal bed methane ownership dispute, freehold lease agreements, freehold mineral tax and federal taxation issues.

Thirdly, FHOA provides education and information through newsletters. FHOA published two detailed newsletters last year. One dealt with the coal bed methane ownership dispute and the other with offset obligations.

Fourthly, FHOA provides education and information through a help line. In 2008, FHOA's offices responded to an average of slightly more than 12 calls, e-mails and letters per day. Like our web site, many of these calls come from non-members and we sometimes struggle to keep up with responses.

Fifthly, FHOA provides education and information through technical information requests. In 2008, FHOA provided members with 81 technical information packages. These packages include maps showing the location of wells on and in the eight sections immediately surrounding the freeholder's mineral rights, when and how deep the wells were drilled, and the production from these wells. The packages also include maps showing the distribution of Crown and freehold mineral rights in the area of the freeholder's rights and the prices paid for Crown leases. Members find these packages useful during lease negotiations. Technical packages may also be used by members to insure that their lessees are fulfilling their obligations to protect the freeholder from drainage under the offsets well clause in their lease. FHOA does its best to fill technical requests within six weeks of receiving the request but we are not always successful in doing so particularly at times after information seminars when we tend to be inundated with requests.

### ***Slide Six***

Mrs. Pedersen advised that in 2008, FHOA's research and common voice efforts were focussed: firstly, on the ownership of coal bed methane or CBM beneath split title lands, secondly, on shut in or suspended wells and the meaning of the phrase 'capable of production' as used in most freehold leases, and thirdly on making our elected representatives aware of the many problems which freeholders face in dealing with the energy industry

She first discussed the CBM ownership issue.

Roughly 40% of the individually owned freehold mineral rights in Alberta are split title with one party owning the coal and another party owning the natural gas, or the petroleum and natural gas beneath the land. The owner of coal is typically EnCana Corporation. The Carbon Development Partnership or CDP also owns coal rights in some instances. Both entities are successors in interest to mineral rights originally held by the Canadian Pacific Railway Company. The owners of natural gas (or petroleum and natural gas) are typically individual freeholders whose forefathers purchased homestead lands from the CPR during the years between 1902 and 1912 – a period of time during which the CPR thought natural gas was a worthless and noxious substance.

EnCana and CDP claim that their ownership of coal beneath split title lands includes the natural gas in coal or CBM. The coal owners' unsubstantiated claims to CBM ownership; their threats to sue any company that produces CBM from split title lands but who have not negotiated a CBM sharing agreement with them; and the Alberta Government's decision to pass legislation in 2003 stating that CBM is natural gas, but only beneath Crown lands, has resulted in an intolerable situation for many individual freehold owners.

### ***Slide Seven***

Mrs. Pedersen advised that the next two slides were used in a meeting the previous week with the rural caucus. The meeting had been organized by Mr. Ray Prins, MLA for Ponoka. She indicated that similar slides had been shown to Energy Minister Knight on two occasions and to the Calgary caucus in a meeting in January of this year.

She stated that the map on the left of the first slide showed the distribution of Crown lands (in white) and freehold lands in southern Alberta. Lands in yellow are freehold lands where all mines and minerals are freehold. In red are lands where individual freeholders hold title to natural gas and EnCana holds title to coal and petroleum. In brown are lands where individual freeholders hold title to petroleum and natural gas and either EnCana or CDP holds title to coal. She stated that the brown & red lands were split title.

Mrs. Pedersen advised that the map on the right of the slide showed the aerial distribution of the approximately 12,000 wells which have been drilled for coal bed methane in southern Alberta since 2002. She pointed out that most CBM wells have been drilled within the area of the Province where split title freehold is checker-boarded with Crown mineral rights.

### ***Slide Seven***

She stated that this slide showed a township of mineral rights in the Trochu area and was typical of what has been happening throughout the CBM fairway between Edmonton & Calgary. Within Twp 34 Range 23 west of the 4<sup>th</sup> meridian there are 18 sections of Crown land (in blue and green) and 18 sections of freehold (in yellow). She advised that all of the freehold sections contain at least one quarter section of split title freehold. 55 wells are producing CBM in this township – these wells are shown in red. All are located on the 18 sections of Crown mineral rights. There are no wells producing CBM from the 18 sections which contain any split title freehold. She noted the position of the wells on Crown land – many having been drilled along the outer edges of the Crown land. The positioning of these wells maximizes drainage of the offsetting freehold land.

Mrs. Pedersen stated that she had been advised that the ‘rule of capture’ is recognized in Canadian oil and gas law. Under this rule, an owner of oil or gas has no legal recourse against his neighbour if that neighbour drills a properly authorized well on his side of the fence and produces oil or gas from the owner’s side. The owner’s only recourse is to drill his own well to minimize drainage.

The Government of Alberta is the neighbour of the freeholders who own mineral rights in this township.

Mrs. Pedersen advised that there was no doubt that all of the wells on Crown land in this map had been properly authorized. Consequently, the freeholders who own offsetting mineral rights have no legal recourse against either the Government of Alberta or the energy companies that have drilled wells on Crown land. The only thing that these freeholders can do is to drill wells on their own land to minimize drainage.

But Mrs. Pedersen stated that once a freeholder leases his oil or gas rights he or she no longer has the right to drill – the exclusive right to drill has been granted to the energy company that has leased the mineral rights.

Mrs. Pedersen described the problem faced by individual freehold owners this way.

The coal owners have threatened to sue any lessee that produces CBM from a section of land which includes split title freehold unless that company has entered into a CBM sharing agreement with the coal owners. Most CBM developers share FHOA’s view of the coal owners’ claim to CBM – that the claim is without legal merit. Consequently, most lessees have been unwilling to enter into CBM sharing agreements with the coal owners but are reluctant to drill on sections of land which include split title freehold due to the coal owners threat to litigate.

This map shows the result – the vast majority of CBM wells drilled to date have been on Crown sections of land offsetting freehold mineral rights.

Mrs. Pedersen stated that as a direct result of the Alberta Government's legislation stating that CBM is gas but only beneath Crown lands, the Government of Alberta is profiting at the expense of freehold owners and there is nothing that individual freehold owners of natural gas can do about it. Actually that's not quite right she said – freeholders could do what the Alberta Energy web site suggests they should do – enter into agreements with the coal owner to share the CBM resource.

In other words agree that CBM is one thing – gas - on the Crown side of the fence and something else – some combination of coal & gas acceptable to the coal owner – on the freeholder's side.

### ***Slide Nine***

Mrs. Pedersen advised that in 2006 and 2007, FHOA sought and was granted leave to intervene in an ERCB review hearing held at EnCana's request to determine the legal entitlement to CBM produced from a well on split title lands. The hearing was held in the fall of 2006. During the hearing, it was pointed out that the coal owners had taken no legal action to enforce their purported claim to CBM. In September of 2006, the coal owners commenced a number of legal actions in the Alberta Court of Queen's Bench against CBM developers who had drilled and produced CBM under gas leases granted by freehold owners.

In March of 2007, the ERCB ruled that the coal owners were not entitled to CBM. Mrs. Pedersen thanked the ERCB for awarding FHOA its legal costs in this intervention.

Mrs. Pedersen stated that she had been advised that the ERCB has exclusive jurisdiction to decide technical matters but only the courts can decide legal ownership. Decisions of the ERCB may be appealed to the Court of Appeal of Alberta on questions of law or jurisdiction. Following the ERCB ruling, the coal owners exercised their right to appeal the ERCB decision. In 2007, FHOA sought and was granted the right to intervene in this appeal by the Alberta Court of Appeal. She advised that the appeal was scheduled to be heard on November 5 and 6 of 2008. All of the necessary written arguments had been prepared and filed when, immediately prior to the hearing date, Alberta Justice advised all parties that it intended to seek leave to intervene on constitutional grounds. The coal owners then discontinued their appeal.

Mrs. Pedersen stated that FHOA's membership had donated approximately \$22,000 to a legal fund to support our involvement in the CBM ownership dispute. FHOA spent approximately \$8,500 of these funds on the coal owners' aborted appeal.

EnCana is now carrying forward the five legal actions it initiated in 2006 in the Court of Queen's Bench. The defendants in these actions are Quicksilver Resources Canada, Devon Canada and Arc Resources.

Mrs. Pedersen advised that it was EnCana's opinion that a final judicial decision on CBM ownership could be anticipated in 2 – 3 years. She stated that FHOA questioned this timing because it took six years from the date of the Court of Queen's Bench decision in the evolved gas split title ownership dispute (April 1998) until the Supreme Court rendered its final judicial decision (April 2004). She advised that 18 months after EnCana initiated its CBM ownership actions, no trial date has even been set.

Mrs. Pedersen thanked those members who had contributed to our CBM legal fund. Some of the contributions were very generous. However she noted that only 157 members had to date contributed to this fund. She urged any attendees who had not contributed to visit Ross Watson in the foyer and make a donation. She also advised that under the Government of Alberta's Community Spirit Donation Grant Program, the Government provides eligible non profit associations with matching grants of up to \$25,000 for annual donations made to the association. To be eligible the non-profit must provide direct services to Albertans and Alberta communities for purposes of improving quality of life through such things as education. She advised that she assumed that FHOA would be eligible under this program and although FHOA had not yet applied, it intended to do so.

Mrs. Pedersen stated that this program could significantly enhance FHOA's ability to deal with the CBM issue on behalf of freehold owners IF freeholders could be convinced of the merit of making donations to FHOA. She noted that the value of the CBM resource FHOA is trying to protect for individual freehold owners is dependent on future gas prices but that FHOA's Technical Committee Chairman, David Speirs, had advised her that \$5 billion was a reasonable estimate.

The coal owners - EnCana and CDP - are both multi-billion dollar entities. Mrs. Pedersen stated that FHOA clearly needs more than the \$13,500 remaining in its CBM legal fund if FHOA is to adequately protect the property rights of our membership in the face of these powerful forces. She advised that FHOA was particularly concerned because there are really only two parties to the CBM ownership dispute: the coal owners (EnCana and CDP); and the gas owners (the approximately 20,000 individuals and family corporations who own the natural gas beneath split title lands). Only one of these parties is participating in the legal actions.

She stated that as matters stand, FHOA does not have sufficient funds to become involved in these actions at the Court of Queen's Bench level. Consequently, freeholders are wholly dependent on Quicksilver, Devon and Arc to represent their interests. Mrs. Pedersen advised that FHOA's principal concern was that the energy companies that are named as defendants in these legal actions do not really care whether individual freeholders or the coal owners own CBM – their principle interest is to obtain CBM ownership certainty so they can go about their business.

Mrs. Pedersen stated that although most provincial legislation is introduced by the Government, there is also provision for legislation to be introduced by individual MLA's. Before each session of the legislature, MLA's who wish to bring forward what are known as 'private members bills' draw numbers from a hat to determine the order in which private members bills are introduced. Only those MLA's drawing low numbers have any realistic chance of having their bills voted on by the legislature. In 2007, Ray Prins, Conservative MLA for Ponoka-Lacombe, took the initiative in drafting a private members bill which would vest ownership of CBM on split title lands in the hands of the individual freehold owner of natural gas. MLA Prins drew a very favourable number from the hat - his private members bill was scheduled to be the 2<sup>nd</sup> bill introduced in the 2008 spring legislative session. Former Cabinet Minister Ty Lund agreed to introduce the bill which had the support of both the rural caucus and the opposition. Regrettably, this private members bill died on the order paper when the election was called.

Mrs. Pedersen advised that a new draw for the order of private member bills introduction had now been held and that the bill was now scheduled as number 35. This effectively meant that the bill would not go forward and any legislation dealing with CBM ownership beneath split title lands would have to be sponsored by the Government. She also advised that in 2007, FHOA

met with Energy Minister Knight on two occasions in an attempt to convince him to bring forward government legislation upholding the ERCB ruling. The Minister was not prepared to do so.

Prior to the last election FHOA spent \$12M of its limited funds on a video presentation entitled 'Don't Turn Your Back on Bullies' – this video can be viewed on FHOA's web site under Latest News – Media. Mrs. Pedersen thanked Dennis Jones and Leta Reid for appearing with herself in this video. In the video FHOA reminded Premier Stelmach of his pledge when appointed as Premier to do what's right for all Albertans and asked him to honour this pledge. FHOA presented the Premier with a copy of the video but we have not had any direct response from him subsequently.

However Energy Minister Knight did charge his Parliamentary Assistant, MLA Len Webber of Calgary Foothills, with the task of investigating freeholder concerns. Last July FHOA met with Mr. Webber to discuss our concerns including the CBM ownership issue. Mrs. Pedersen expressed FHOA's sincere thanks to Mr. Webber for the interest he has shown in the problems freehold owners face. As Chair of the Calgary caucus, Mr. Webber arranged for FHOA to make a presentation to the caucus in January of this year.

The message which FHOA conveyed to the caucus was that it was time for the Alberta Government to do what's right for its citizens by passing legislation confirming the ruling of its regulator and vesting ownership of CBM in the hands of the owner of natural gas beneath split title lands.

FHOA also met with Mr. Ghazi Duranni in February of this year. Mr. Durranni is a former Assistant Deputy Minister of Energy for Alberta and is now a consultant appointed by the Energy Department to complete the recommendations of the CBM Multi Stakeholder Advisory Committee. The final report of the MAC was issued in January of 2006. One of the final report recommendations was that "The Alberta Government should set up a process to facilitate parties coming together to work toward resolution of split-title ownership issues".

In March of this year Mr. Durranni arranged a meeting of all stakeholders interested in the CBM ownership issue. The meeting was attended by representatives of the Canadian Association of Petroleum Producers or CAPP, the Small Explorers Association of Canada or SEPAC, the Canadian Association of Petroleum Landsmen or CAPL, the ERCB, EnCana, Sherritt Coal / CDP, Imperial Oil, Conoco/Phillips and FHOA. At this meeting, FHOA submitted that an appropriate resolution to the split title ownership dispute would be provincial legislation vesting ownership of CBM beneath split title lands in the hands of the gas owner. Not surprisingly the coal owners were opposed to this suggestion. More surprisingly, none of the other participants favoured Government legislation. This was particularly disturbing because the representative of the CAPL was an employee of Devon Canada who is directly involved in the CBM litigation as Devon's designated corporate officer.

Mrs. Pedersen posed the following question to the attendees: "Why would Devon prefer to continue participating in a costly law suit rather than have the issue being litigated decided in their favour by Government legislation?" She stated that the issue is whether the interests of individual owners of natural gas are being adequately protected by Devon and the other two energy companies named in the coal owners' legal actions.

Mrs. Pedersen stated that she understood that the United States Supreme Court had considered the CBM ownership issue and in a 1999 decision had ruled in favour of the gas owner. In reaching its March, 2007 CBM entitlement decision, the ERCB relied, in part, on this

US Supreme Court ruling. She advised the attendees that this US Supreme Court ruling was not raised by the parties involved in the hearing until FHOA brought it forward.

Mrs. Pedersen noted that at FHOA's last AGM, she had advised those present that we had accumulated approximately 3,500 signatures on our petition calling for the Alberta Government to legislate CBM ownership beneath split title land in favour of the gas owner. She had thanked those of you who had signed our petition or circulated it amongst friends, neighbours or relatives. She had also expressed her disappointment at the level of response considering that the CBM ownership issue not only involves billions of dollars worth of natural gas but raises serious ethical issues with respect to our government's position.

Mrs. Pedersen noted that to date FHOA had received approximately 3,800 petitions. FHOA has not attempted to present these petitions to the Premier because we consider our inability to motivate our membership on an issue of this importance to be a major embarrassment to the Association. She again urged attendees to copy and circulate and have all your family members sign the petition. FHOA needs many more signatures.

### ***Slide Ten***

Mrs. Pedersen advised that the second issue which FHOA focussed on in 2008 was the meaning of the phrase 'capable of production' or 'capable of producing' as used in most freehold leases. In late 2008, FHOA was made aware of a hearing before the ERCB which focussed on whether OMERS Energy held a valid and subsisting lease for the purpose of the issuance of well licenses. She stated that the fundamental issue was whether the wells drilled by OMERS were 'capable of production'. Based on our review of the freehold mineral rights in question, the wells which OMERS was relying upon to continue their lease were not capable of production in paying quantities.

FHOA sought and was granted intervener status by the ERCB on its own behalf and on behalf of the involved freehold owner who was a member of the Association. The decision of the ERCB on this matter is pending and she advised the audience that David Speirs would discuss the issue in more detail during the afternoon seminar.

Mrs. Pedersen stressed that David & Brad Murray volunteer their technical expertise and the lawyers on our board volunteer their legal expertise on a general basis. However when it comes to intervening in ERCB hearings or legal actions significant legal expenditures are involved. The importance of these interventions cannot be overemphasized. In fact, she stated that it was her opinion that FHOA should not only be a more active intervener, FHOA should be initiating legal actions and hearings to have issues critical to freehold owners' property rights decided by regulatory authorities or the courts.

Mrs. Pedersen stated that the bottom line was that FHOA does not have sufficient financial resources and if this association is to fulfil its mandate FHOA must find a more sustainable source of funding.

### ***Slide Eleven***

Mrs. Pedersen advised that the third focus of FHOA's research efforts and our efforts to act as a common voice for freeholders in 2008 was on informing our elected representatives of the problems faced by freehold owners. She stated that she thought the Association had been quite successful in this effort last year and FHOA's efforts were continuing in 2009.

She noted FHOA's meetings with Mr. Len Webber, with the Calgary caucus and with the rural caucus. She also mentioned her meeting with Cal Dallas, MLA for Red Deer South to discuss issues particular to one of FHOA's members and advised that FHOA had scheduled a meeting with the Edmonton/Capital caucus for May of 2009 and planned on requesting a meeting with the Justice Minister to discuss FHOA's concerns with the judicial interpretation of the Limitations Act.

Mrs. Pedersen advised that at the stakeholders meeting arranged by MLA Webber and Mr. Duranni in March that there was unanimous consensus amongst those present for the need for education of freehold owners in matters such as freehold title fractionation/estate planning and various leasing issues. Where the money to support an education initiative will ultimately come from remains to be seen – she stated that CAPP plans on approaching its membership for funding - but step one is the universal recognition of the need.

### ***Slide Twelve***

Mrs. Pedersen advised that to date FHOA's accomplishments have been based entirely on volunteers. She stated that she was an unpaid volunteer as were all of FHOA's officers and directors. FHOA's seminars and meetings are also organized and run entirely by volunteers. She publicly acknowledged those members who had volunteered their time to help with seminars and meetings over the past year. She invited those present to please stand up and be recognized as she called out names: Em Evans, Mae Sorensen, Gloria DeLisle, Jerry and Shirley Field, Shirley and Bing Jones, John and Pat Hill, Miriam Grinde, Joan Boyce and her son, Reuben Giebelhaus, Mac and Margaret Brereton, Sheri MacMillan, Paul Van Doren, Kevin Niemi, Norman Tanish, Sophia Hemm, Elvin Haller, Lois Gorr, Ruth Hoppus, Evelyn Shursen, Lorraine Couthard, Kathleen Chesney, James Dohlman, Wayne Dohlman, Carolyn Jefferson, Doral Morrison, Bob Buss, Kliff Westby, Dennis Jones, Gloria Bergman, Doug Sim, Larry Walton, John Halchik, Derek Ziegler, Bernie Goltz, Clare Verschave, Karen Leach, Lorna Pregoda, Janet Cooper, Miriam Grinde, Cecil Thronson, Kliff Westby, Ken Midbo and Harvey Adamson and Vern Schimpf, Grant Oatway and Kris Pedersen

Mrs. Pedersen apologized because she was sure she'd left some people out.

She also thanked FHOA's administrative assistant, Kathryn Johnson, for efficiently and pleasantly fulfilling a demanding job and Kirsten Millung, senior analyst for Freehold Oil and Gas Services for all of the knowledgeable help she provides to FHOA members. Mrs. Pedersen especially thanked Sybil Evans whose accounting assistance for seminars and meetings was absolutely invaluable this year and in past years and to those professionals who volunteered their time and expertise as speakers at our seminars last year – Brad Murray, David Speirs, Doug Rae and Keith Wilson from our board of directors and Sherri MacMillan, Bill Evans, Sanjay Naicker and Roland Lequier. She also acknowledged FHOA board members Jim Harriman, Leanne Walton and Ross Watson who have assisted with our meetings with government officials.

Mrs. Pedersen stated that when she became president of the Freehold Owners Association in 2002, FHOA was funded entirely by modest membership fees, technical service fees and seminar attendance fees. Last year, those present at our AGM voted unanimously to have FHOA increase its annual membership fee to \$50 or \$135 for three years and our technical service fee to \$125. She stated that she was pleased that the addition of lease fees and the share of fees collected for mineral rights evaluation services and offset recovery services provided by Freehold Oil and Gas Services has helped to maintain our financial viability.

### ***Slide Thirteen***

Mrs. Pedersen then asked David Speirs to briefly review FHOA's audited financial statements for the year ended December 31, 2008. Mr. Speirs advised that the Association's Balance Sheet at year end indicated approximately \$26,000 in available working capital.

### ***Slide Fourteen***

Mr. Speirs noted that the FHOA's revenues increased slightly in 2008 to \$97,200 from \$91,100 in 2007 and that this increase was entirely attributable to the \$22,000 in member contributions to FHOA's legal fund. This increase was offset by a decline in seminar fees associated with fewer seminars in 2008. FHOA's expenses declined to \$77,100 in 2008 from \$110,300 in 2007. The decline was primarily attributable to the fact that the ERCB granted us our costs in the CBM intervention in 2008.

### ***Slide Fifteen***

Mrs. Pedersen advised that the slide on the screen was very similar to the slide which she had used last year.

The principal problem that FHOA faces going forward is that our mandate is to educate and inform freehold owners on technically and legally complex issues, to research these issues and to act as a common voice for freeholders in respect of these issues. Other than our part time administrative assistant, we fulfil our mandate entirely with volunteers. She stated that this is just not sustainable on a long term basis.

Mrs. Pedersen advised that the first meeting of the multi-stakeholder review committee on Freehold Mineral Tax would be held on April 30, 2009. CAPP, CAPL, CAPLA (the Canadian Association of Petroleum Land Administrators), SEPAC and FHOA together with several of the major corporate owners of freehold minerals (EnCana and Imperial Oil) will participate. One of the stated objectives of this review will be to consider whether the freehold mineral tax program is fulfilling its intended objectives.

Mrs. Pedersen advised that FHOA's participation in this review would be focussed on having some portion of the freehold mineral tax collected from individual freehold owners dedicated to providing educational services to freeholders through FHOA. Even if only a small portion of the estimated \$21 Mm collected last year from individual freehold owners was flowed back to FHOA, our financial sustainability issue could be resolved.

Going forward, Mrs. Pedersen noted that she had already mentioned FHOA's intention to update our web site and make part of our site only available to paying members.

She stated that the set up in the lobby was the first step in FHOA's efforts to more aggressively advertise the services we provide to freeholders. She advised that FHOA expected to be in a position to announce a major new initiative to provide estate planning services to freeholders in the next several months.

Overall Mrs. Pedersen advised that it was FHOA's intention to provide freeholders with all of the various services they need through entities which charge modest fees and flow back a portion of these fees to FHOA.

Mrs. Pedersen advised that this concluded the directors' report for 2008.

## **ELECTION OF THE DIRECTORS**

Mrs. Pedersen then advised that the next item of business was the election of directors for the coming year. She stated the Association's charter documents provide that the Association shall have a minimum of 3 and a maximum of 15 directors. Directors must be individuals who are 18 years of age or over, but need not be members. Mrs. Pederson advised that FHOA currently had 15 directors and that the directors proposed that a minimum of 15 persons be elected as directors to hold office until the next annual meeting.

Mrs. Pedersen stated that the meeting was open for nominations and asked Marilyn Hoy to read the names of those persons who have been nominated by the current directors.

Mrs. Hoy stated: Mrs. Sybil Evans, Mr. Jim Harriman, Mr. Doug Leeds, Mr. Pat McDonald, Mr. Brad Murray, Mr. Joe Lehane, Mr. Michael Niven, Ms. Orleen Pearson, Mrs. Else Pedersen, Mr. Doug Rae, Mr. David Speirs, Mr. Frank Russell, Mrs. Leanne Walton, Mr. Ross Watson, and Mr. Keith Wilson.

Mrs. Pedersen then stated that each of the nominees had signified his or her consent to act as a director and asked if there were any further nominations. Since there were none, Mrs. Pedersen asked for a motion nominating the directors for 2009.

Mr. Marvin Dyberg moved that it be resolved that Mrs. Sybil Evans, Mr. Jim Harriman, Mr. Doug Leeds, Mr. Pat McDonald, Mr. Brad Murray, Mr. Joe Lehane, Mr. Michael Niven, Ms. Orleen Pearson, Mrs. Else Pedersen, Mr. Doug Rae, Mr. David Speirs, Mr. Frank Russell, Mrs. Leanne Walton, Mr. Ross Watson, and Mr. Keith Wilson be elected as directors of the association for the ensuing year. Mr. Dennis Jones seconded the motion.

Mrs. Pedersen asked for a show of hands in favor and opposed to the motion. None were opposed. She advised that the Scrutineer's Report indicated that the vote by proxy was for 158 and none withheld. She then declared that Mrs. Sybil Evans, Mr. Jim Harriman, Mr. Doug Leeds, Mr. Pat McDonald, Mr. Brad Murray, Mr. Joe Lehane, Mr. Michael Niven, Ms. Orleen Pearson, Mrs. Else Pedersen, Mr. Doug Rae, and Mr. David Speirs, Mr. Frank Russell, Mrs. Leanne Walton, Mr. Ross Watson, and Mr. Keith Wilson to be elected as directors of the Association to hold office, subject to the Canada Corporations Act, until the next annual meeting of members or until their successors were duly elected.

## **APPOINTMENT OF AUDITOR**

Mrs. Pedersen stated that the next item of business was the appointment of the Association's auditor for the coming year.

Pat Hill moved that Murray Hunter, Professional Corporation, Chartered Accountant be appointed as the auditor of the Association at remuneration to be fixed by the directors. Bill Chorney seconded.

Mrs. Pedersen asked for a show of hands in favor and opposed to the motion. None were opposed. She advised the Scrutineer's Report indicated the vote by proxy was for 158 and none withheld. She then declared that Murray Hunter, Professional Corporation, Chartered Accountant is duly appointed as the auditor of the Association until the next annual meeting or until his successor is duly appointed.

Mrs. Pedersen then stated that unless there were any objections, she proposed that the meeting be concluded, and that the meeting break for lunch and re-convene for the information seminar after lunch at 12:30 p.m.

Andrew Antoniuk moved a special tribute to the Board of Directors and Volunteers for the very fine job they are doing and all their hard work. Dennis Jones Seconded that motion to a nice round of applause.

Kathleen Chesney rose and moved that the Meeting be concluded. Bob Buss seconded that motion. Mrs. Pederson asked for a show of hands in favor and opposed to the motion. None were opposed. She then declared the motion carried and the Meeting terminated.