

FREEHOLD PETROLEUM & NATURAL GAS OWNERS ASSOCIATION  
MINUTES- ANNUAL GENERAL MEETING – APRIL 17, 2010  
(to be read in conjunction with slides)

The Freeholders Association (FHOA) held its annual general meeting at the Crossroads Church, Red Deer, AB on Saturday April 17, 2010 at 10:00AM.

**Slide One:** President Else Pedersen introduced herself as chairperson for the meeting and called the meeting to order. She then gave a warm welcome to all members present and thanked all for attending FHOA's 11<sup>th</sup> Annual General Meeting.

Ms. Pedersen then introduced the head table –David Speirs, Director and Technical Committee Chair of FHOA and Mary Stultz Jones, acting Secretary, and announced the appointment of Mae Sorensen, as scrutineer for the meeting. Ms. Pedersen declared the meeting duly constituted- The Notice of meeting, circular and a form of proxy was mailed out to members March 16, 2010.

Other FHOA directors present were Sybil Evans, Leanne Walton, Orleen Pearson, Joe Lehane, Ross Watson, Doug Leeds, Jim Harriman, Doug Rae, and Michael Niven, most of who were busy with duties in the lobby. Keith Wilson and Brad Murray were present for the afternoon session. Absent, but standing for re-election, were Pat MacDonald and Frank Russell

**Slide Two:** Ms. Pedersen briefly reviewed the agenda, stating the meeting would take about one and one half hours, and began with a brief review of the Freeholders Association, why it was formed, what its mandate is. This was followed by a review of what FHOA had accomplished over the past ten years, main issues addressed in 2009 and actual accomplishment of the past year. There would then be a review of financial statements, election of directors, and election of auditor for the coming year and lastly a glimpse of FHOA's future direction. This would conclude the formal part of the day's meeting followed by a break for lunch at about 11:30. Following a one hour lunch break the afternoon seminar would convene.

Chair Pedersen then outlined the afternoon's events.

A number of information tables were set up in the foyer for noon hour perusal:

- Morgan Allen, FHOA's new administrative assistant, had a table explaining the services which FHOA provides to its members i.e.
  - technical information requests;
  - royalty recovery services through Freehold Owner Recovery Services Ltd.;
  - mineral rights evaluation services through Freehold Owner Evaluation Services Ltd.;
  - Estate planning services through Freeholder Owner Estate Planning Services Inc.
- Another table had information on 'What's the Going Rate Initiative' For this table, acknowledgement and thanks go to Jim Kiss, Alberta Farmers' Advocate and Graham Gilchrist, Assistant Farmers Advocate, for their assistance in helping FHOA finance this initiative under the 'Going Forward Program' of the Provincial and Federal governments.
- Also, at this same table, were forms which ensured that member names and addresses are available to energy companies for their database, provided to the industry by 'geoLogic Systems Ltd'.
- A table was set up for donations as FHOA is in desperate need of funds for its many initiatives undertaken each year in an attempt to protect the property rights of freehold mineral owners.

- Under the Alberta Government's Community Spirit Program, not-for-profit donations are matched on an annual basis up to \$25,000.
- Joe Lehane, lawyer and FHOA director, was available for help in dealing with estate planning for freeholders
- Also during the noon hour, in a designated room, Just Freehold Energy Corp. presented an information session on their innovative financial vehicle designed to replace income trusts. Just Freehold has acquired a substantial number of high quality freehold leases and is currently raising funds to support its 2010 drilling program. Just Freehold Energy Corp. was formed and fostered by FHOA with a 'Relationship Agreement', to lease and develop freehold mineral rights using the 'freehold friendly FHOA lease'.

FHOA has relationship agreements with Just Freehold and with each of Freehold Owner Recovery Services (FORS), Freehold Owners' Evaluation Services (FOES), and Freehold Owner Estate Planning Services (FEPS). Under these agreements, Just Freehold pays FHOA \$100 each time it leases a tract of freehold mineral rights using FHOA Leases and each of FORS, FOES, and FEPS flows back a percentage of its profits to FHOA. With our limited financial resources and the many issues we face, the funds generated by these relationship agreements are of great importance to FHOA.

The afternoon information seminar was the 31<sup>st</sup> information seminar sponsored by FHOA since its inception in 1999. Each seminar focuses on at least one particular issue critical to freehold owners. The focus this year was on property rights.

Chair Pedersen advised that Keith Wilson, a St. Albert lawyer and one of FHOA's longest serving and most valuable directors, would discuss the meaning of freehold property rights and what is about to change. David Speirs, a professional geologist, FHOA director, and Technical Committee Chair, would discuss specific threats to your property rights.

Following a 15 minute coffee break, time was allotted to a political debate by Alberta's political leaders or their representatives on property rights and the freehold mineral owner.

We were privileged to have as guest presenters, Mr. Brian Mason, leader of the Alberta New Democratic Party; Mr. Hugh MacDonald, MLA for Edmonton-Goldbar and former Opposition Energy Critic; Mr. George VanderBurg, MLA for Whitecourt/St. Anne and Chair of the Cabinet Policy Committee on Energy and the Environment; and Ms. Danielle Smith, Leader of the Wildrose Alliance Party. Each would discuss their party's position as it relates to property rights and in particular freehold property rights. Following their presentations, each had a five minute rebuttal time. The meeting would then be opened to questions from the floor. Mrs. Pedersen stressed that whether in agreement with the positions taken by each of these guest speakers regarding their position on property rights, she expected questions from the floor to be polite and respectful at all times.

Mrs. Pedersen then presented her report of the work of FHOA over the past year. Following is a summary of the information covered in her review:

**Slide Three:** FHOA was organized in 1999 with the help of Alberta Energy. Approximately 4400 individual and family corporations have joined this association, representing approximately 25000 freeholders. FHOA is governed by an elected board of 15 directors together with a number of industry professionals who dedicate their time and effort to our association because they recognize the many injustices that freeholders have been subjected to.

**Slide Four:** FHOA's threefold mandate is to provide education and information to individual owners of freehold mineral rights, to research issues of concern, and to promote fairer treatment for freehold owners. Because oil and gas exploration is a complex business governed by complex rules and regulations it takes experienced and knowledgeable personnel to fully understand the complex issues involved. Freeholders are at a tremendous disadvantage when it comes to dealing with our mineral rights. Our problems are compounded by the freehold lease agreements drafted by teams of oil and gas lawyers who fully protect their energy industry clients in language that ordinary people seldom fully understand.

**Slide Five:** FHOA provides needed information and education to freeholders to help them deal with their nonrenewable resources in a number of ways:

1. Through seminars - last year held in Camrose, Red Deer and Calgary, dealing with shut-in wells, estate planning, leasing, and protecting your property rights;  
2. Through Newsletters – last year FHOA published three newsletters dealing with shut-in wells, the coal bed methane ownership dispute, the ERCB's decision in the 'capable of production' hearing, our 'What's the Going Rate' initiative, and donations under the Government's 'Community Spirit Program'. Because of increased cost of mailing out newsletters to members, Chair Pedersen urged those present to provide the association with e-mail addresses.

**Slide Six:**

3. Through our help line FHOA is able to reach more freeholders due to increased membership, to increase in internet users and to more awareness by government agencies.  
4. Through technical packages sent out to a number of freeholders. These packages include maps showing location of wells on and in the eight sections surrounding the freeholders mineral rights, when and these wells were drilled, production from these wells, distribution of Crown and Freehold mineral rights in the area and prices paid for Crown leases. Last year 80 such packages were sent out for a total of 700 packages to members of FHOA since inception.  
5. Lastly through our website – the only website specifically dedicated to freehold mineral issues. FHOA consistently receives more than 60,000 hits a month- many of our visitors are non members.

Chair Pedersen advised that FHOA initially set its membership fee, seminar attendance fees, and technical service fees low in order to attract members believing this to be a needed public service and hoping that we would be recognized by governments as a worthy public service worthy of financial support. This did not happen consequently in order to keep FHOA functioning we were forced to increase membership fees to \$50.00/yr. (or \$135.00/3yr.), seminar fees to \$20.00 members (\$30.00 nonmembers) and technical service fees to \$125.00. In 2009, only 1340 of our members saw fit to pay membership dues. Ms. Pedersen urged members to renew their memberships and to involve other younger family members to educate them re mineral ownership.

**Slice Seven:** At the same time, our website use has increased – this means that our paying members are subsidizing those nonmembers who are using our website for whatever reasons. As a result, FHOA is redesigning its web site so that information is only partially available to nonmembers. The site is being structured using a content management system which will allow Morgan and David to keep the site updated without having to go through a web design company. It will also provide for membership dues and technical service requests to be paid on line with credit cards through a secure server. We expect that by the end of this summer FHOA will be in a position to provide members with a username and password which will allow members to access the new site.

**Slide Eight:** Chairperson Else Pedersen then went on to describe the situation concerning coalbed Methane (CBM) recovery issues. She advised that since 2002, some 14,000 wells have been drilled for CBM within the Horseshoe Canyon fairway between Edmonton and Calgary. Freehold mineral rights are checker boarded with Crown mineral rights throughout this fairway.

**Slide Nine:** She showed a slide of mineral rights in the Nevis area – 18 Crown sections and 18 freeholders section are shown on this map. In early 2007, 62 wells were producing from 18 sections of Crown lands, none were producing from the 18 sections of freehold land.

In 2003 the Alberta government passed legislation stating that CBM is a natural gas, but only on Crown land, resulting in a grossly unfair situation for tens of thousands of freehold owners. The freeholders had no legal recourse against either the government of Alberta or the energy companies that have drilled wells on Crown land. Freeholders mineral rights were being drained through wells legally drilled on Crown lands offsetting them and there was nothing they could do about it because this was legal under the Rule of Capture. When this slide was shown to government officials in 2007 we were advised that drainage was not a problem because gas doesn't flow through coal as readily as through conventional reservoir rocks. At the time we could not prove otherwise it is now obvious that significant drainage of freehold mineral rights has taken place in many areas of the CBM fairway. Ms. Pedersen requested that David Speirs discuss slides showing this drainage.

**Slide Ten:** Speirs showed a slide focusing on CBM wells in the nine sections surrounding section 21-39-22w4m – a split title section of mineral rights owned by two of FHOA's members. The slide showed the production from each CBM well in the first six months of production in thousands of cubic feet per day (Mcf/d) (above the well), the most recent six months of production in Mcf/d (below the well), the cumulative production in millions of cubic feet (Mmcf) (to the right of the well) and the first and last dates of production (to the left of the well). Speirs pointed out that the wells on section 21 had been drilled by Just Freehold Energy Corp and its partners in 2008 almost 3 years after the CBM wells on offsetting Crown lands had been brought on production. Speirs pointed out that the initial production from the wells on section 21 was significantly lower than the initial production from the wells on the offsetting Crown mineral rights. He also pointed out that the discrepancy between wells on Crown and wells on split title freehold drilled after the offsetting Crown wells had produced significant volumes of CBM was even more pronounced on split title sections 17 and 27 which had been drilled and brought on production 4 years after the offsetting CBM wells on Crown land.

**Slide Eleven:** Speirs then showed a slide comparing the historical CBM production from the well on Crown land in lsd 4 of section 22 with the offsetting well in lsd 1 of section 21. It was apparent that productivity had declined in the 4-22 well over the first three years of production and that the productivity from the 1-21 well closely matched this reduced productivity. Speirs advised that this could be explained by drainage but could also be explained if there were material differences in the coals from which production was being taken or in the completion techniques used in the wells.

**Slide Twelve:** Speirs then showed a slide comparing the coals in the 4-22 well with the coals in the 1-21 well which illustrated that there were no material differences in the coals in the two wells. Speirs advised that there were also no material differences in the completion techniques. Speirs concluded by asserting that if the foregoing applied to only two wells it could be attributed to chance but it in fact applied to every well within the nine section block and abundantly demonstrated that freehold mineral rights had suffered substantial drainage from offsetting wells producing CBM from Crown lands. Speirs also asserted that the problem was not confined to the Nevis area but existed throughout the CBM fairway and had been exacerbated by the change in well target areas introduced by the ERCB in

2005 which encouraged the drilling of wells on fence lines.

**Slide Thirteen:** Chair Pedersen then advised that the threats of the coal owners to sue any operator that produced CBM from split title lands under a lease agreement with the owner of natural gas unless a CBM sharing agreement had been negotiated with the coal owners was no longer the principle problem facing owners of split title natural gas. She asserted that most CBM developers now shared FHOA's view that the coal owners' had little chance of having the courts rule that CBM was coal. She advised that the coal owners had not followed through with their threats and had confined their litigation to several actions which were proceeding through the courts essentially as test cases. She asserted that the principle problem facing freeholders whose undrilled mineral rights were surrounded by wells producing CBM from Crown lands was economic. Ms. Pedersen advised that the cost to the industry in dealing with freehold was usually substantially higher than the cost of dealing with Crown. This was because of the need to secure a full section gas spacing unit. Securing freehold gas spacing is typically a time consuming and costly business as these mineral rights have been passed down to three and four generations resulting in 'fractionation' of the freehold title. This makes it more complicated, more costly, for the energy company in securing a spacing unit and in administration once production is established. She also advised that with current natural gas prices drilling wells for relatively low productivity CBM is no longer economical on freehold lands in comparison to Crown lands due to differences in royalty rates. Crown leases have a sliding scale royalty and for low productivity CBM, the typical royalty is 5%. Freeholders typically demand fixed royalty rates of 16 -18%.

**Slide Fourteen:** Chair Pedersen then showed the previous slide of the Nevis area and asserted that if there is no drainage, freeholders can insist on whatever lease terms they feel are fair. But if, as in the Nevis area, a freeholder's mineral rights are being drained, getting his or her property leased and a well or wells drilled to mitigate drainage should be the freeholder's primary objective and this may entail accepted royalty rates competitive with offsetting Crown lands. Consequently, FHOA's top priority now becomes securing sustainable funding to assist in the educating of freeholders on the need to stop title fractionation and to lease their mineral rights under sliding scale royalties so as to remain competitive with the crown. Chair Pedersen advised that she understood that the Crown would, in the near future, be releasing its amended royalty rates for natural gas tied to both productivity and gas price. She advised that it was FHOA's intention to amend the sliding scale in the FHOA lease to include a price variation component once the association had reviewed the new Crown sliding scale.

**Slide Fifteen:** Chair Pedersen then discussed a second issue which FHOA dealt with in 2009 - the meaning of the phrase 'capable of production'. This concerns the issue of energy companies continuing freehold leases indefinitely with wells which are essentially dry holes but are deemed by the company to be capable of production sufficient to continue the freeholder's lease. In 2009, the Energy Resources Conservation Board (the ERCB) held a hearing to determine whether certain well licenses issued to OMERS Energy were valid. The issue was whether these wells were 'capable of production' as this phrase was used in OMERS lease from one of FHOA's members. FHOA sought and was granted intervener status by the ERCB on its own behalf and on behalf of the freehold owner, who is a member of our association. The ERCB ruled that for a shut-in or suspended well to be capable of producing the leased substances, the well must be able to be turned on, without any further operations, and must be capable of some material, as in a meaningful volume of production. OMER sought and has been granted leave to appeal the ERCB ruling to the Alberta Court of Appeal.

FHOA was pleased with the decision of ERCB to the extent that if this ruling is upheld it will put an end to energy companies continuing freehold leases for speculative purposes with what are essentially dry holes. However FHOA would have preferred that the ERCB adopt a more definitive test such as

the 'paying quantities' test which is used virtually in all American jurisdictions.

**Slide Sixteen:** The ERCB subsequently released its cost order re this 'capable of production' hearing. The ERCB denied FHOA local intervener costs even though FHOA was representing one of its members whose lease was in issue. According to the ERCB, the freehold owner was not a local intervener because its decision impacted the freeholder's rights under contract and not her rights in land. Chair Pedersen advised that, in FHOA's view, this was a clear error of law which, if allowed to stand, had extremely serious implications for all freehold owners. Following accepted procedures, FHOA first asked ERCB to review its decision. The ERCB rejected this request. Chair Pedersen advised that FHOA now has sought leave to appeal the ERCB's cost decision to the Alberta Court of Appeal. The Court's decision on granting leave is pending.

Having concluded her presentation, Chairperson Pedersen then asked David Spiers, technical committee chairman, to give an overview of the associations audited financial standing for the year 2009. David Speirs took the floor to present a statement of the financial standing of FHOA.

**Slide Seventeen:** Speirs then showed a slide summarizing the associations income and expenses for 2009. Income increased to \$115,000 from \$97,000 in 2008. FHOA's principle source of revenue (membership fees and member donations) was essentially unchanged from year to year at \$77,000. The principle change in revenue year over year was the \$10,000 Growing Forward grant received in 2009 as a result of the efforts of the Farmers' Advocate. Expenses in 2009 increased to \$117,000 from \$77,000 in 2008. The \$40,000 year over year increase related almost entirely to the cost of intervening in the ERCB capable of production hearing. Overall, the association had a net loss of \$2,000 in 2009 compared to net income of \$20,000 in 2008.

**Slide Eighteen:** Speirs then showed a slide comparing FHOA's balance sheet at year end 2009 to that at year end 2008. At year end, the association had working capital of \$28,000 down slightly from \$30,000 at year end 2008.

**Slide Nineteen:** Chairperson Pedersen then thanked those who over the past year had volunteered their time to help with seminars and meetings throughout the year. Those present were invited to stand and be recognized as their name was called: Em Evans, Mae Sorenson, Gloria DeLisle, Gerry Field, Shirley Field, Shirley Jones, Bing Jones, John Hill, Pat Hill, Miriam Grinde, Joan Boyce, Reuben Giebelhaus, Mac Brereton, Margaret Brereton, Paul VanDoren, Kevin Niemi, Norman Tanish, Sophia Hemm, Evin Haller, Lois Gorr, Ruth Hoppus, Margaret Rawley, Evelyn Shursen, James Dohlman, Lorraine Coulthsard, Kathleen Chesney, Wayne Dohlman, Carol Jefferson, Doral Morrison, Bob Buss, Kliff Westby, Dennis Jones, Gloria Bergman, Doug Sim, Larry Walton, Kris Pedersen, David Stollée, and Kliff Westby.

Chair Pedersen apologized to those volunteers who had been inadvertently missed.

Special recognition was given to Kathy Johnson, part-time administrative assistant over the past four years, who had efficiently and pleasantly filled a most demanding job. The growing administrative workload resulted in FHOA hiring Ms. Morgan Allen as a full time administrative assistant late last year. Ms. Pedersen also extended special thanks to Sybil Evans, whose accounting assistance for seminars and meetings was absolutely invaluable; to Board Directors Brad Murray and David Speirs; to Sherri MacMillan, Bill Evans, Sanjay Naicker, and Roland Lequier for their expertise as speakers at our seminars over the past year. Recognition was also made of the effective phone fan-out system by FHOA Volunteers used over the year.

The next item of business was Election of Directors: Chairperson Pedersen announced that the Association's charter required that there be a minimum of three and maximum of fifteen directors. The directors must be individuals of eighteen years of age or over, but need not be members. The Association currently has fifteen directors and the directors proposed that a minimum of fifteen persons be elected as directors to hold office until the next annual meeting.

Secretary Mary Jones read the names of those nominated by the current directors:

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

Chairperson Pedersen then called for further nominations from the floor. After three calls, there being no further nominations, Chairperson Pedersen declared nominations close. Motion by Bill Chorney, seconded by Dennis Jones that the above named fifteen persons be declared directors of FHOA for the year 2010. The Scrutineer's Report indicated that the result of the vote by proxy was; 126 votes for, one vote withheld. Motion Carried. Chairperson Pedersen declared the above named directors to hold office until the next annual meeting.

Chairperson Pedersen then called for the appointment of the association's auditor for the coming year. Motion Marion Raugust, seconded by Vern Holz that Murray Hunter Professional Corporation be appointed as the auditor of the FHOA with remuneration to be fixed by the directors. Carried. Murray Hunter, Professional Corporation Chartered Accountant, was duly declared appointed auditor of FHOA until the next annual meeting.

The business of the meeting having concluded, the meeting was adjourned on a motion by Carolyn Jefferson, seconded by Kliff Westby Carried.

The afternoon seminar was convened at 12.30PM

Ms. Pedersen welcomed the Leaders panel of Brian Mason, ND, Hugh MacDonald, LIB, Danielle Smith, WA, and George VanderBurg, PC

Ms. Pedersen introduced MLA's Ray Prins, Lacombe-Ponoka; Ty Lund, Rocky Mountain House; Hon Luc Ouellette, Innisfail-Sylvan Lake; Cal Dallas, Red Deer-South and Dr. Neil Brown, Calgary-Nose Hill to the meeting.

Keith Wilson addressed the topic of freehold property rights, changes about to take place, and the importance of freeholders to keep informed, greater restrictions on mineral development and loss of property rights without compensation under Bill 10 and Bill 36

David Speirs addressed the same topic discussing specific threats to our freehold property rights as outlined below

- 10-year ultimate bar in the Limitations Act - an invitation for unscrupulous energy companies to breach freehold lease agreements in complex technical circumstances with impunity
  - o Governments position when statute was introduced in 1999  
(does not apply to non-payment of royalties - i.e. continuous breach)
  - o Alta CA ruling in 2005 (re Meek Estate) contradicts Government position
- Freehold mineral owners have no effective recourse when their lease agreements are breached unlike surface owners who have recourse to ADR through both the ERCB and the Surface Rights Board resulting in most surface disputes with energy companies being settled by arbitration

- o freehold mineral owners' only recourse is to the courts
- o in many disputes the amount outstanding does not justify litigation
- o most freeholders cannot afford the legal process
- Title fractionation is destroying the value of freehold mineral rights - all stakeholders agree that freehold owners need information & education on methods to prevent fractionation (May, 2009 Report to Energy Minister)
- Expansion of Alberta municipalities through annexation is sterilizing underlying mineral rights without compensation

This was followed by the panel discussion of Alberta's four political parties on Property Rights and Freehold Minerals, discussing the topic of Freehold property rights from their point of view. Brian Mason, Danielle Smith, and Hugh MacDonald unanimously supported sustainable funding for FHOA

George VanderBurg announced \$250,000 in government funding to FHOA over the next 2 years.

Ms. Pedersen warmly thanked the panel participants and was gratified to hear the announcement of government funding to FHOA.

Q and A session followed

Ms. Pedersen thanked the head table guests, the audience, the table display participants, the volunteers, the Cross Roads Church, and all who helped who make this a successful day.

Meeting adjourned.

Mary Stoltz Jones, Secretary