

## **MINUTES OF THE SEPTEMBER 18, 2004 ANNUAL GENERAL MEETING OF THE FREEHOLD PETROLEUM & NATURAL GAS OWNERS ASSOCIATION**

The annual meeting of the Freehold Petroleum & Natural Gas Owners Association (the "Meeting") was held in Festival Place of the Red Deer Memorial Centre, 4214 – 58<sup>th</sup> Street, Red Deer, Alberta on September 18, 2004 and was attended by approximately 300 members and guests.

Mrs. Else Pedersen, President of the Freehold Petroleum and Natural Gas Owners Association ("The Freehold Owners Association", "FHOA" or the "Association") called the meeting to order at 10:10 AM.

Seated at the head table in addition to Mrs. Pedersen were: Mr. Jim Harriman, Mrs. Gloria DeLisle, Mr. Brad Murray, and Mr. Michael Niven current directors of FHOA; Mr. Cliff Downey, Mr. Douglas Rae and Mr. Greg Hillman, nominees as directors of FHOA. Also seated at the head table were Mr. David Spiers, FHOA Technical Committee Chairman. Mr. Richard Anderson remained at the registration table.

Mrs. Pedersen began her remarks by welcoming members and guests to the meeting. She then provided those in attendance with a brief overview of what the Freehold Owners Association is, why FHOA was formed and what FHOA is trying to do. She advised that the annual general meeting would take approximately two hours, there would be a break for a one hour lunch and the information seminar would begin at 1:00 PM.

Mrs. Pedersen provided the meeting with an overview of the agenda of guest speakers for the afternoon information seminar. Mr. Mike Bruni, Q.C., head of the Alberta Energy and Utilities Board's legal department speaking on the relationship between the Board and freehold owners; Ms. Brenda Curle, manager of Alberta Energy's Mineral Tax Department speaking on freehold mineral tax; Mr. Michael Niven, oil and gas lawyer with the legal firm of Carscallen Lockwood and member of FHOA's board of directors, speaking on gross royalty trusts; and Mr. Brad Murray, a facilities engineer and member of FHOA's board, speaking on coal bed methane. Mrs. Pedersen advised that following each of the twenty (20) minute presentations the floor would be open to questions of a general nature.

Mrs. Pedersen provided background information on the Freehold Owners Association by advising that FHOA is a federally incorporated, not-for-profit association currently registered to carry on business in Alberta, Saskatchewan and Manitoba. We were organized in late 1999 with the help of the Alberta Department of Energy. More than 2500 freehold owners have joined FHOA. 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. FHOA's board consists of ordinary citizens who happen to own freehold mineral rights together with a number of industry professionals who dedicate their time and effort to our association because they recognize an injustice. FHOA has no paid staff other than the university students we hire to assist us during the summer months under a federal government salary-matching program.

Mrs. Pedersen advised that FHOA's accomplishments have been funded entirely from \$25 annual membership fees, \$10 seminar attendance fees, \$50 fees charged for providing technical information and member contributions to our legal fund.

Mrs. Pedersen stated that FHOA exists to promote fairness and to level the playing field between individual freehold owners and the oil and gas companies that lease freehold mineral interests. The Province of Alberta collected \$7.7 billion in oil and gas lease signing bonuses, annual rentals and production royalties for the year ended March 31, 2004. If freehold owners were reimbursed at the same rate as the Province, the 4% of Alberta mineral rights owned by individual freeholders would have generated \$400 million dollars for freehold owners. But Alberta freehold owners received nowhere near \$400 million last year.

Mrs. Pedersen stated there are three (3) reasons for what she referred to as the "fairness deficit".

1. Freehold lease agreements – The signing bonuses, rental rates and royalty rates in freehold lease agreements are substantially lower than Crown leases, freehold lease agreements are drafted by oil company lawyers for the protection of their clients. These leases are not written in plain English and freeholders often do not understand their effect. Many rights which freehold leases provide to oil companies are not granted to these same companies in Crown leases. Why should freehold leases contain no deep rights reversion clauses similar to Crown leases and why should oil companies have the right to hold the leases indefinitely? And why should freehold leases contain what is known as a 'judicial ascertainment clause' which effectively 'bulletproofs' the lease and allows an oil company to breach the terms of the lease with impunity.
2. The lack of controls to keep the oil companies that lease our mineral rights honest. We are particularly vulnerable to the actions of oil companies who put the pursuit of profit ahead of their responsibility to act in good faith. Your only recourse if your oil company-lessee breaches the terms of its lease agreement with you is the courts. We don't have any independent body similar to the Surface Rights Board to resolve our conflicts with oil companies.
3. Freehold lease agreements usually provide for most of the freehold mineral tax to be paid by the oil company and freeholders are generally only responsible for our royalty share (15% royalty rate in lease, you pay 15% of the freehold mineral tax), but freehold mineral tax directly reduces the royalty rate which the oil company would otherwise pay to the freeholder.

Mrs. Pedersen stated that the Freehold Owners Association was formed to:

1. Provide education and information to freehold owners

2. Research issues of concern to freeholders; and
3. Promote greater fairness for freehold owners by:
  - a. acting as a common voice for all freeholders
  - b. communicating our legitimate concerns to the oil and gas industry, industry regulators, governments and the public
  - c. advocating reasonable solutions to problems.

With the approval of those present, Mrs. Pedersen then asked Mrs. Pat Anderson to act as Scrutineer and Mrs. Gloria DeLisle to act as Secretary of the meeting.

Mrs. Pedersen advised that a Notice of Meeting, Information Circular, and a form of Proxy were mailed on August 9, 2004 to all members of the Association as of the record date of August 6, 2004. Mrs. Pedersen directed the Secretary to keep the Declaration of Mailing with the records of this meeting.

Mrs. Pedersen stated that the by-laws of the Association provide that a quorum for the transaction of business consists of 2 members present in person and entitled to vote, and that, as the Scrutineer's Report indicated there were 43 members in attendance and 142 represented by proxy, she was satisfied that a quorum was present. Mrs. Pedersen directed the Secretary to keep a copy of the Scrutineer's Report with the records of the meeting. Mrs. Pedersen then declared the meeting to be regularly called and properly constituted for the transaction of business.

The first items of business was the Report of the Directors and the Financial Statements of the Association.

Mrs. Pedersen advised the meeting that during the last 12 months:

- FHOA has published 2 newsletters, one dealing with coal bed methane and the other with freehold mineral tax. (Mrs. Pedersen acknowledged the following individuals, Joe and Pearl Marshall, Art and Joyce Boyce and 16 others who assisted with a mailing in Innisfail. Cybil Evans, Mary Thorensten and 16 others for the mailout done in Ponoka.)
- There has been a significant increase in the number of members who have e-mail addresses.
- During the summers of 2002 and 2003 university students were hired to make our web site more "user-friendly". The revised web site was uploaded in November of 2003.
- FHOA's website is now averaging approximately 1000 unique visitors per month.
- A university student was hired this past summer (2004) to add more animated illustrations, however, the work was not completed by summer's end. We hope to complete the work next summer as well as add an update of information on the site to include estate planning, coal bed methane, freehold mineral tax and gross royalty trust issues.

- FHOA held four information seminars last year (Camrose, Lacombe, Edmonton and Ponoka) which were attended by approximately 1100 freeholders.
- The efforts of the individuals who helped organize and volunteered at these seminars, as well as the speakers, were acknowledged and appreciated. FHOA made a modest profit on each of the seminars while at the same time keeping attendance fees affordable.
- Last year we responded to more than 1000 telephone and e-mail queries.
- Last year the association provided basic technical information respecting their mineral rights to 60 members for a modest fee of \$50. Mrs. Pedersen acknowledged the Calgary firm of GeoLogic which was represented at the meeting by Mr. Lukas Ford, for making the technical information available to FHOA at substantially below market price. It is GeoLogic's intention to make information on freehold mineral titles and leases more transparent and more widely available at a lower cost and give this issue priority.
- During the last year FHOA's efforts were focussed on coal bed methane and split title ownership.
- Industry interest in coal bed methane has intensified and some Alberta surface owners have serious concerns about the impact of CBM development. The Government of Alberta formed a Multi-Stakeholder Advisory Committee or MAC to address issues and provide recommendations respecting future development. FHOA has been represented at monthly MAC meetings by Mrs. Pedersen, Brad Murray, Jim Harriman and David Speirs. Brad Murray will address CBM issues during the afternoon sessions.
- FHOA has approached the Alberta Government for funding support to do further research and address into issues surrounding CBM development, e.g. freeholders' liability for possible future environmental problems; appropriate royalty rates; questions about commingling CBM and conventional gas; and questions about ownership.
- Last year FHOA researched the ownership of hydrocarbons produced from wells on split title land. An overview was provided to those present on how split title lands came into existence.
- Contributions were sought from members to fund an intervention by FHOA before the Supreme Court of Canada in support of the position being advanced by the individual freeholders who were appellants in a preliminary issue of law being heard by the high court. The Association's costs were approximately \$26,000 and members contributed slightly more than \$18,000. Regrettably the court did not find in our favour. Mrs. Pedersen advised that further information about the Supreme Court decision would be posted on FHOA's web site and in FHOA's next newsletter. Mrs. Pedersen thanked all

members who contributed to the legal fund as the collective voice of freehold owners was raised for the first time in our highest court.

The association's financial position was then presented by Mrs. Pedersen. The financial statements had not been audited as yet because the book-keeping was only updated in early September and the audit will not be done until October or November.

- Mrs. Pedersen advised that when FHOA was organized it was felt having a March 31<sup>st</sup> year end could save on audit costs because auditors are normally busiest in the period when most companies report – December 31<sup>st</sup>. This has created some confusion as membership dues are payable on a calendar year basis. Mrs. Pedersen advised that FHOA intended to switch to a December 31<sup>st</sup> yearend if the association ever become financially secure enough to spend the several thousand dollars necessary to do so.
- FHOA's revenues increased substantially to \$63,300 in the year ended March 31<sup>st</sup>, 2004 as compared to \$31,200 in 2003. This was primarily due to the \$17,000 which was contributed by members to our Supreme Court intervention fund in the period prior to March 31, 2004. Revenue from memberships increased from \$21,000 to \$40,300, but part of that increase related to the timing problems associated with the March 31 year end.
- Expenses increased to \$45,000 in the year ending March 31, 2004 from \$35,600 in 2003. The cost of reporting to members (postage for newsletters) increased approximately \$3,000; FHOA also spent about \$1500 more on students in the year ending March 31, 2004. The principal reason for the increased costs in the year ended March 31, 2004 was the \$9,100 FHOA spent on the Supreme Court intervention costs in the period prior to March 31, 2004.
- In the year ended March 31, 2004 FHOA had a surplus of \$18,300.

Mrs. Pedersen also spoke to FHOA's current financial position to show those in attendance what has happened since March 31, 2004..

- The \$16,900 in expenses which were incurred after March 31, 2004 associated with our Supreme Court intervention had effectively 'eaten up' the accumulated March 31<sup>st</sup> surplus.
- Members' equity stands at approximately \$13,400 at this point.
- Members' equity consists of the depreciated cost of the association's fixed assets – essentially a computer for the use of our students and the projector currently in use together with current working capital.
- As of mid September, the Association had approximately \$8,700 of working capital (current assets less current liabilities).

Mrs. Pedersen stated that she felt the Association had done a great deal with very little.

Before opening the meeting to nominations for directors Mrs. Pedersen indicated FHOA's Charter allows for a minimum of 3 directors and a maximum of 15. The Association currently has 12 directors and the directors had proposed that a minimum of 13 persons be elected to hold office until the next annual meeting. Mrs. Pedersen then

personally thanked Jack Pierse, Don Beddoes and Keith Luft who had previously served as directors but were not seeking re-election this year. She particularly thanked Keith Luft who had been one of FHOA's original directors.

Mrs. Pedersen advised the three new individuals who had allowed their names to stand as directors were: Cliff Downey, a former Farmers Advocate, MP and current member of the Surface Rights Board; Greg Hillman, a freehold owner and farmer who has training in oil and gas production accounting; and Doug Rae, a senior partner in a Calgary legal firm specializing in oil and gas matters.

The meeting was then opened for nominations. The Secretary was requested to read the names of those persons who have been nominated by the current directors. The Secretary read the names of Mr. Richard Anderson, Mrs. Gloria DeLisle, Mr. Cliff Downey, Mr. Jim Hampton, Mr. Jim Harriman, Mr. Greg Hilman, Mr. Brad Murray, Mr. Michael Niven, Mrs. Else Pedersen, Mr. Doug Rae, Mr. Richard Riggins, Mr. Keith Wilson and Mr. Deryk Ziegler.

Mrs. Pedersen then asked if there were any further nominations. Since there are no further nominations Mrs. Pedersen declared the nominations closed and requested someone to move and someone to second a motion electing those nominated as directors of the Association.

Mrs. Sybil Evans moved, and Mrs. Theresa Joslin seconded, a motion that nominations be closed. The motion carried without opposition by a show of hands.

Mrs. Pedersen then stated that the Scrutineer's Report indicated that the vote by proxy for the election of Mr. Richard Anderson, Mrs. Gloria DeLisle, Mr. Cliff Downey, Mr. Jim Hapton, Mr. Jim Harriman, Mr. Greg Hilman, Mr. Brad Murray, Mr. Michael Niven, Mrs. Else Pedersen, Mr. Doug Rae, Mr. Richard Riggins, Mr. Keith Wilson and Mr. Deryk Ziegler as directors of the Association for the ensuing year was: For 142; Opposed – nil.

Mrs. Pedersen then declared these individuals dually 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 are duly elected.

The next item of business of the association was the election of the President. The Association's charter provides for the President to be elected and hold office for 2 years from the date of election or until his successor is elected in his stead. Mrs. Pedersen asked Mr. Brad Murray to chair this portion of the meeting.

Brad Murray requested the Secretary read the name of the person who has been nominated by the current directors. The Secretary reads the name of Mrs. Else Pedersen. Mr. Murray asked if there were any further nominations. As there were no further nominations Mr. Murray declared nominations closed. He then requested someone to move and someone to second a motion electing Else Pedersen as President of the

Association. Leanne Wilson nominated Else Pedersen as President of the Association and Mae Sorensen seconded the motion. Mr. Murray then requested a show of hands for members present who were in favour of electing Mrs. Pedersen President of the Association. All those members present voted in favour; none were opposed. The Scrutineer's Report indicated the vote by proxy was for – 141; withheld vote – 1. Mr. Murray declared Mrs. Else Pedersen elected as President of the Association to hold office, subject to the Canada Corporations Act, for the next 2 years or until her successor is duly elected. Mrs. Pedersen then re-occupied the Chair.

Mrs. Pedersen advised the next item of business was the appointment of the auditor. Mrs. Ruth Hoppus moved that Deloitte & Touche LLP, Chartered Accountants, be appointed as the auditor of the association at a re-muneration to be fixed by the directors. Mr. Dennis Jones seconded the motion. Mrs. Pedersen asked for a show of hands of those in favour, no members present opposed the motion. Mrs. Pedersen advised the scrutineer's report indicated the vote by proxy was for – 141; withheld vote - 1. Mrs. Pedersen declared Deloitte & Touche LLP as auditor of the association for the coming year.

Mrs. Pedersen then proposed the formal part of the meeting be concluded and the meeting be opened for the discussion of future directions.

Mrs. Sybil Evans moved the Meeting be concluded, the motion was seconded by Mrs. Theresa Joslin. Motion carried and Mrs. Pedersen declared the meeting concluded.

Mrs. Pedersen then spoke to the future direction of the association and requested input from the membership.

Some issues noted by Mrs. Pedersen are:

- FHOA's critical lack of funds to hire staff to do administrative work and research.
- Industry associations such as the Canadian Association of Petroleum Producers (CAPP) are funded in part by a levy on every well in the Province which is collected by the AEUB on behalf of CAPP. There is no such corresponding funding for an association to represent freeholders.
- Late last year, FHOA has asked Energy Minister Murray Smith to return a tiny fraction of the \$100 million dollars the Alberta Government collects annually in freehold mineral tax from production from our mineral rights.
- Minister Smith suggested we submit a formal proposal for funding which was done, however, Minister Smith has decided not to seek re-election and we are concerned that our request will sit in limbo until a new minister is named.
- We feel freeholders have been badly used by the oil and gas industry and the Alberta Government has done little or nothing to protect our rights.

- Our membership renewal forms indicate that, on average, each member represents 2.8 other freeholders. On that basis FHOA speaks on behalf of some 7000 of the 50,000 freehold owners in Alberta.
- We need to make the other 85% of freehold owners aware of our association and the merits of joining same.
- We need to complete the development of our model form of freehold lease for freeholders.
- Mr. Lucas Ford gave a presentation on GeoLogic and their attempts to assist FHOA in making freehold mineral ownership more transparent. Mr. Ford asked members to sign a form permitting GeoLogic to share their freehold information with other freeholders. The company requires permission of individual freeholders due to the restrictions of the Freedom of Information and Protection of Privacy Act (FOIP). (Interesting to note the oil and gas companies don't need our written permission to access our information.)
- Mr. Ford provided forms for those in attendance to sign if they wished.
- Some members have suggested the association provide services such as lease negotiation assistance, royalty statement analysis and consolidation of title assistance.

Mrs. Pedersen then asked for comments from those in attendance. There followed a general discussion.

Signed

Gloria DeLisle

Secretary