

What goes up must come down. For a couple of years now the OilPatch has soared. All those who have been around for a long time have indicated that there always is an end and in time a Bust would follow the Boom. Thus with a little help from our political leaders this appears to be coming to fruition.

It has indeed been a tough year. On the geopolitical side the world has been relatively stable. George W Bush took some knocks in last year's elections thus losing his majority in the House of Representatives and in the Senate. This has certainly curtailed any hawkish plans for the USA and the world. Severe weather such as hurricanes has not been much of a factor this past year either. The US economy has seen a mild recession thus slowing some of the demand for natural gas. In addition global LNG infrastructure has started to infiltrate the marketplace as the natural gas price reached high enough levels to back such investment.

Oil remains high – in fact at record levels. Global demand is already relatively elastic and thus on the strength of all countries ever increasing energy demands there isn't the same ability to fill in with other products or supply types. Here in Canada as the conventional (natural) gas exploration fell off in quarter one of 2007, a large amount of the service and supply sector shifted towards the Oil Sands. Without this, we would have truly seen a Bust here in Canada.

A year ago the Federal Government announced the new tax policies on Income Trusts. This had a devastating effect on stock prices of such entities. As it relates to our business, we saw one type of client hit hard. As well the Juniors (Oil Companies) had found this to be a very good market for them to sell into to. Juniors could build up production and sell their companies off. Today instead Juniors must struggle with low natural gas commodity prices and the loss of a significant buyer market. Other external factors such as Aboriginal Consultation and Public Engagement requirements further make the business life of a Junior that much more difficult.

More recently in specific terms for seismic we have seen our Premier, Ed Stelmach, weighing into a seismic program on Marie Lake because of the proposed SAGD tunneling project that followed. A small group of protesters (100 or so) were able to successfully keep the issue in the northern newspapers albeit the coverage had dropped to the editorial pages and the letters to the editor. In addition they staged a small protest at Stelmach's constituency office and all of this appeared enough for Stelmach to wade in and effectively shutdown the seismic program for the time being. This was a very disturbing event for industry signaling the possibility of direct political interference. In this case the seismic approval had been granted in early August and a month later Stelmach in essence overturned the Sustainable Resource Development (SRD) Minister and his Department's work. In later days our industry was assured that seismic on water bodies was OK and that seismic programs would not be coupled with developments that followed (i.e. seismic is approved by SRD while

other Oil and Gas approvals are done by Energy and the EUB). Nonetheless the incident highlighted the potential for Special Interest Groups to concentrate their efforts on the media and the Premier's office for intervention. It is a dangerous precedent for any land use tenure.

More recently the Oil Sands Royalty Review Committee has released their report calling for a 20 % increase in royalties to the Province and in essence re-jigging a lot of the process and funding formulas. The stock market has reacted very negatively to this turn of events. Investors are rarely kind to government intervention on this scale. Stelmach has said he will review the report within the next month and act on it. The Industry certainly expected some changes to come out of this report however were stunned at the level of change put forth. Terms used within the investment community were as strong as "draconian" in reference to the report.

The seismic industry may therefore see further client consternation in another area that remains strong for the service sector. The seismic industry contributes significantly the rural communities in the Province leaving a large portion of their dollars in the community in terms of services and supplies. As well much of the seismic drilling community is also rurally based as are our line cutting services. We will ask our members to spend some time with their local MLA's to express the grave ramifications for our industry should such a report be adopted carte blanche by Stelmach.

In the investment community perception is reality. The Oil Industry has accepted that some change is likely in terms of royalty however in fairness to the Industry and to calm the fears of the stock market such change should be done through an active consultation process with Industry. Failure to do so will further erode the Bust trough and lengthen the downturn for our Industry.

We can only hope that Stelmach understands the risks with such abrupt and wholesale change as it has already been a difficult year for the Industry. **R**

From the Thursday Files:

There are two levers for moving men — interest and fear.

—Napoleon Bonaparte

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