

2009 looks to have in fact turned out worse than 2008 – that is hard to believe. 2009 for many facets of the Oil and Gas Industry looked like 1992 (statistically speaking). I am reminded of the fact that 1992 was also the year the CAGC almost went bankrupt and looked at rolling into one of the other Trade Associations. In the end companies opted to step up to the plate, put in some seed money, restructure its membership and Board of Directors to be broader than just Geophysical Contractors. The importance of the “geophysical lobby” was recognized and continued on. It did broaden our lobby efforts as we were no longer singularly funded by the seismic companies. So as we represent the larger spectrum of all that seismic entails we often represent everyone in this side of the business from the Producers through to the one man consultants.

Downturns then become a challenge as a large percentage of our (CAGC) revenue stream comes from membership dollars. As companies make decisions to cut out things such as memberships, small Associations such as the CAGC suffer quickly as the loss of a number of small dues amounts add up. A decade ago we had about twenty (20) land seismic companies left in Canada. Today we sit around ten (10). Our Industry sector still remains important and is much different than other sectors. We look like a Producer sometimes in the sense that we are out on the land before anyone else. We are required to do Aboriginal Consultation and Stakeholder Relations. This is becoming more and more evident in today's world. However the other side of the coin is that the work we do is temporary so we negotiate access rather than land tenure and we only provide a service without benefit of later resources (i.e. Oil and Gas). This forces us to walk a fine line with dealing with locals as we do not have any long term benefits or ability to create joint ventures as typically we are nomadic ourselves. Long and short of it is that we hope enough companies see long term value in remaining a separate lobby from that of other (different looking / positioned) Trade Associations.

Natural Gas in Alberta

Natural Gas has always been Alberta's main driver. We are into our third tough year stemming from the Federal Government's decisions on Trust Companies; the high Canadian Dollar meant relatively higher costs and relatively lower revenues for Oil Companies; the Alberta Royalty Review and finally the Global economic downturn. The large Natural Gas finds in the USA shale plays disconnected the two commodity prices (NG and Oil) for the first time in history. Natural Gas needs to play a greater role in the climate change issue. Governments need to lead this. The Natural Gas market will get better but whereas other Provinces are working with Industry in order to develop unconventional plays, Alberta has not.

In this vein Alberta has positioned itself poorly over the past couple of years. Other Provinces and jurisdictions are reaping the rewards. We should be leaders rather than followers. The lion's share of drilling has always come from Natural Gas exploration. Looking at pure number splits between the various types of drilling over the past decade bears this out. We need to be better positioned in this market – now and in the future. The Alberta Advantage was built on its Regulatory framework AND on the ability for Juniors to be the feedstock of the Industry. Regulations at many levels have made this more and more difficult. Arguably the Trust scenario – when allowed to operate – made a lot of sense for a Junior type company. Once

this advantage was lost Juniors have had to struggle more and more to survive. This has been exacerbated with issues such as Aboriginal Consultation (time and money) and a lack of investment dollars into the sector as a whole. As the market comes out of the downturn the situation is ideal for mergers and/or takeovers. The big will get bigger. The risk for Albertan Industry is whether there are Juniors able to become mid-caps or not. Without the Juniors, Canada's industry will potentially go the way of the World's NOC's – big, large and unwieldy – consisting of only a few.

North American Shale / Tight Plays

There is both upside and downside here. On the downside we have seen the commodity price divergence between Natural Gas and Oil due to supply/demand dynamics. However the shale plays – in BC and SK have been the one bastion of Industry work in the Natural Gas area during the downturn. This has not been the case in Alberta. The world needs Natural Gas. It has to play an important role in the Climate Change debate. As such all of the unconventional/tight sources will be needed. Alberta must consider regulatory reforms in taxes, royalties, etc. to encourage the exploration, drilling and development in these areas. Sunset the reforms in order to protect the concern from public interest, etc.

Exploration and production takes time. The last couple of years have pulled out a lot of the investment dollars in our sector. Prior to this there was a recognition that production would decline over the next few years given all things remaining equal. Instead the events over the past few years will exponentially affect the production levels in a negative fashion. As such Alberta is currently positioned to be behind the curve as the world economy starts to recover.

Stakeholders

Industry must do a better job in working with stakeholders on the land base to stem the inevitable concerns that arise from a busy land base and high global pricing for energy. Alberta, more so than any other Province, does need exploration, drilling and development to sustain local rural economies. It is not enough to put all our eggs in the oilsands basket. As such we have to get back to work in the other areas of the Province. Unfortunately for Industry this may come at a further price of more public involvement. This is the balance that the Government of Alberta must strike. Maybe the Land Use Framework was to accomplish this task, however within the balance is the regulatory side from which the Government must be able to balance its approach in terms of determining the right level of fiscal impetus to not over-heat the market or not to cool down the market. *R*

From the Thursday Files:

*There's no secret to balance. You just have to feel the waves.
– Frank Herbert Chapterhouse: Dune (1985).*

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