

Ontario oil sector keeps pumping away

North America's oldest energy industry finding reserves across province

By James Bow
Business Edge

The oldest oil industry in North America is still pumping, 150 years after it began. Operating in the shadow of Alberta, Ontario's petroleum sector continues to find new reserves of oil and gas.

"There is \$135 million per year of revenue from ongoing exploration," says Joe Van Overberghe, executive director of the Ontario Petroleum Institute, quoting figures for 2007. "We're looking in Lake Erie and on the north shore. We're pumping off the lake and along the north shore."

There are 1,200 active oil wells in the province, as well as 1,400 natural gas wells, 500 of these offshore. Producers range from large energy companies to local farmers pumping oil from their own fields. The sector is estimated to employ about 16,000.

"The area of Haldimand is basically private wells right now," says Van Overberghe. "There are wells pumping down in Essex and in Kent county. There's even the Region of Halton near the 401. That doesn't include the historical properties through the Petrolia area."

Greentree Gas & Oil (TSXV:GGO) is one company operating in Ontario. It recently announced plans to drill five new wells near Rodney, an hour southwest of London. The Rodney field has, to date, produced more than 10 million barrels of light oil.

"Greentree started in 1995 with the purchase of a small natural gas property south of Tillsonburg, Ont.," says Duncan Hamilton, president of Greentree Gas & Oil. "We produce around 115 barrels of oil equivalent (BOE) per day, which is approximately 80 per cent natural gas."

"We expect to add an additional 80 barrels per day by yearend with our drilling program," he adds. "We have holdings throughout southwestern Ontario, especially in the Simcoe to Tillsonburg region and the Rodney area."

Another company is Torque Energy (TSXV:TQE). Based in London, Torque produces 151 BOE per day from three pools located in southwestern Ontario.

"Torque Energy started in 2001 when two people, John Cowan and Steve Calquhoun, acquired the assets of CanEnerco Ltd. out of receivership," says John Thomson, general manager of Torque Energy. "I was there as an employee of CanEnerco. Through time I stayed with the new company and moved up. Steve Calquhoun moved on to other projects, but John Cowan is still a director."

"The industry here is hugely different than Western Canada," he adds. "It's small-scale, with a lot of individu-

ally controlled companies operating. The practices and techniques are quite different. But it's stable, even though it goes through price crashes the same as everything else."

Hamilton says: "Ontario has a fragmented land base with a preponderance of relatively small farms compared to Western Canada. Ontario also has a freehold claim rather than provincial ownership of petroleum rights. It takes time and money to develop a land base as each and every parcel has to be negotiated with the landowner. It is a challenge to get a compromise between the best drill location and a location that is the least disruptive to a farm."

"The regulations in Ontario are fair, in my opinion, but we are faced with new regulations related to freshwater conservation and, most recently, endangered species," he adds. "To be successful here, you need to be on top of the regulations and build a solid history of compliance."

For Hamilton and Thomson, these features are one thing they like about Ontario's industry – that and the fact that the province is home to them. Neither has considered leaving to participate in the oil rush in Alberta.

"I moved from Alberta in 1991," says Thomson. "I had 10 years of experience in the Albertan oil industry, but my wife was from the East Coast and I

was from Ontario. Ontario was closer to home than Calgary was, and I wanted to see what the oil industry here was like."

Hamilton says: "I was attracted to the petroleum business after having started out in the mining industry. The key attraction was working five days a week rather than seven days a week in the bush, in remote locations. I was drawn to the Ontario oil-patch because my family was in southwestern Ontario and family ties are important to me. Working here, it's clear to me that there is lots of unrealized potential."

In 2006, Ontario produced 2,100 barrels of oil and 30 million cu. ft. of natural gas per day. This is small compared to Alberta's 1.84 million barrels of oil and 13.2 billion cu. ft. of natural gas in 2006, but it represents more than \$150 million per year of production. As oil wells run dry, this is not bad for an industry celebrating its 150th anniversary.

Back in August 1858, asphalt producer James Miller Williams set out to dig a water well near a community in southwestern Ontario called Black Creek. He found oil instead and triggered the continent's first oil rush. The community renamed itself Oil Springs. The Oil Museum of Canada, located in town, commemorates this event.

"To visit Oil Springs is to make pilgrimage to the place where the modern petroleum age began," says Robert Tremain, supervisor-curator at Lambton County Museums. "Among other things, you can see the continent's first commercial oil well, Canada's first refinery and the world's longest-producing oil field – still pumping with 1860s technology."

The action moved to nearby Petrolia with the discovery of larger fields there in 1866, but the whole area remained dominant in the North American oil industry for decades. "Lambton County produced 90 per cent of the Dominion's oil needs until the beginning of the 20th century," says Tremain. "Alberta started contributing in 1910 and then took over with the Leduc discovery (in 1947)."

The oil museum is holding a number of events to commemorate the 150th anniversary of the discovery of oil in Oil Springs. It has set up a website (<http://2008celebrate.com/>) and is launching a book, *Ontario's Petroleum Legacy*, by Earle Gray, on the history of the industry.

Although rising oil prices have been a boon to the Ontario industry, the challenge has been getting attention next to the heated activity going on in Alberta.

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Retailers examining costs, benefits of payment system

At its top outlets, PetroCanada is approaching 5,000 transactions a month using the new payment system.

"We're the only retailer of fuel that is positioned to accept the PayPass cards," says Lytwyn. "Growth in the use of the card is up 35 per cent in the first six months of this year now that every MasterCard issuer in the country is issuing PayPass cards."

PetroCanada does 800,000 transactions a day, and the PayPass component is currently less than 10 per cent of them.

But by 2011 or 2012, when most MasterCard and Visa plastic has been reissued and debit cards also have the contactless feature, the use of the new payments system should rise to as high as 25 per cent of all PetroCanada transactions, says Lytwyn.

PetroCanada has not yet decided whether to convert its own proprietary payment card to contactless technology. "We're still looking at the costs and benefits of doing that," he says.

While competitors such as Shell and Esso accept contactless cards, those are their own proprietary cards and cannot be used at other retail outlets as PayPass can. "We looked at that, and decided it would become obsolete," says Lytwyn.

The POS readers that PetroCanada has already installed for the contactless cards will do double duty once mobile phones are enabled for purchases. "I suspect it's three to five years out before we see any critical mass

on the phone side," says Lytwyn.

Spokespeople for most participating retailers declined to discuss the impact of the PayPass card at their locations or were unavailable to comment.

However, McDonald's restaurants said it now accepts the PayPass cards at less than 20 of its 1,400 outlets in Canada, having only begun its rollout in August. The company expects to have full deployment by mid- to late-2010.

Meanwhile, Visa Canada is introducing its own contactless plastic – the PayWave card. At the same time, Visa Canada is upgrading its traditional magnetic-stripe card, introduced in the early 1980s, with a computer-chip card that provides greater security through encryption and authentication. The chip card is being tested in a trial begun last fall in Kitchener-Waterloo.

As part of that trial, TD Bank has issued chip cards to cardholders within Kitchener-Waterloo, some of which have the contactless VISA PayWave feature. RBC has also indicated plans to issue VISA PayWave cards.

"Both products are going quite well," says Michael Bradley, head of products for VISA Canada. "Consumers' response to the additional security that chip cards provide has been shown to be something that they understand and are enthusiastically supporting. As a result, we are going to be rolling out chip cards (across Canada) over the next six months or so."

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Companies enjoying new growth

"High oil prices are helping," says Thomson. "Companies are paying off debt a lot quicker, though we're not seeing a swing in share prices because nobody believes the price is going to be there forever. At the same time, it allows you to restructure and go forward."

Hamilton says: "Our revenues are up approximately 150 per cent. With our drilling program, I expect our revenues to be up about 400 per cent by yearend. So far, I haven't seen any increased competition and this is partly due to the province being primarily freehold claims."

Information is not as readily available here as it is in Western Canada, he notes.

"Although there's a lot of money that comes into the wider industry, everybody's looking for the big discoveries," adds Van Overberghe. "It's tough when Bay Street doesn't really know you're here and instead deals directly with Calgary."

"People tend to invest in us outside of boom times because, although we

offer smaller discoveries, we offer proven areas, with some quality oil very close to the market," he says. "The logistical part of the industry is very good here."

But Ontario's oil and gas industry still offers a future for its energy companies, and these companies are starting to grow.

"We have a project with United States Steel to develop indigenous gas supplies to fuel their steel plant in Nanticoke," says Hamilton. "Greentree has lots of projects in Ontario, but in the longer term we are also looking at Michigan and the Quebec lowlands."

Whether it's through acquisitions or through the drill bit, "we'd like to get bigger," adds Thomson. "We want to grow the company."

Web Watch:

www.ontpet.com
www.greentreegas.on.ca
www.torqueenergy.com
http://2008celebrate.com

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RBC and CIBC have already begun advertising chip cards. As for the PayWave cards, TD and RBC will begin rolling them out nationally in the near future, says Bradley.

The PayWave cards are being tested in Kitchener-Waterloo at fast-food outlets (such as Dairy Queen, Quiznos, A&W and Subway) as well as at convenience stores and parking lots. Visa Canada's upper limit for contactless transactions is \$25 per purchase, versus \$50 for MasterCard's PayPass.

"The limits are an inherent part of the balancing that a consumer would have about how much they want to spend without doing a PIN swipe on the transaction," says Bradley. "The research we've done so far suggests starting at a smaller dollar-value level, where consumers are more comfortable."

He rejects the idea that contactless cards' orientation toward small purchases will cause inconvenience for some merchants. "We haven't heard

anything along those lines. If the consumer starts breaking up transactions into several smaller transactions, it will very quickly lose its appeal in terms of speed and ease of use.

"This is a product that is designed for when the lineup is 10 people deep behind you – that you can just wave the card against the device and authorize your purchase and walk away quickly," he says.

Visa Canada is also looking ahead to cellphone-enabled payments.

"Our research shows us that consumers want to be able to use their Visa cards on their cellphones," says Bradley.

A market trial is in progress with RBC in an undisclosed Ontario city. The trial has a \$25 upper limit per transaction, but Visa has made no decision on how high the cap will be set once the rollout begins. The telecom carrier has not been disclosed.

(Sheldon Gordon can be reached at gordon@businessedge.ca)

Coming Events

• **Chamber Luncheon** (Sept. 25, 11:30 a.m. - 1:30 p.m.) – Speaker: **Kyoshi John Therien**, president of the Quartier Vanier Merchants' Association. Location: Pine View Golf Course Club House, 1471 Blair Rd., Gloucester. Cost: Eastern Ottawa Chamber members \$30/\$35, others \$40/\$45. Info: www.easternottawa.com

• **Eggs 'n' Icons** (Sept. 26, 7:15 - 9 a.m.) – Speaker: Ottawa Police Chief **Vernon White**. Location: Sheraton Ottawa Hotel, 150 Albert St. Cost: Ottawa Chamber members \$30, others \$40. Info: www.ottawachamber.ca

• **Technology Innovators Breakfast** (Sept. 26, 7:30 - 9 a.m.) – Speaker: **Dave Stevens**, GM of MySpace Canada. Location: Toronto Board of Trade downtown centre, 77 Adelaide St. W. Cost: BOT members \$55, others \$75. Info/register: www.bot.com

• **Empire Club** (Sept. 29, noon) – Speaker: Saskatchewan Premier **Brad Wall**. Location: Fairmont Royal York Hotel, 100 Front St. W. Cost: Members \$50, others \$65. Info/register: www.empireclubfoundation.com

• **Etobicoke Chamber of Commerce Networking Breakfast** (Oct. 1, 7:30 - 9 a.m.) – Speaker: **Joel Martin**, product manager with Microsoft Canada. Location: Strate's Restaurant, 365 Evans Ave. (at Kipling). Cost: Members \$14.16, others \$18.87. Info/register: www.bot.com

• **Termination of Employment** (Oct. 2, 8 - 9:30 a.m.) – Presented by Bird McCuaig Russell LLP. Location: Ottawa-Carleton Regional Police Association, 141 Catherine St., Ottawa. Cost: Free, but pre-register. Info/register: Contact Tanya Howlett at 613-238-4100 or go to www.lawyersforemployers.ca

• **Rules and Tools** (Oct. 2, 8:30 a.m. - noon) – Topic: Corporate governance for public companies. Location: TSX Venture Exchange, Reception Area, 130 King St. W., Toronto. Cost: \$150. Info/register: www.tsx.com

• **Empire Club** (Oct. 2, noon) – Speaker: **Jason Myers**, president of the Canadian Manufacturers and Exporters. Topic: Is There a Future for Manufacturing in Canada? Location: Fairmont Royal York Hotel, 100 Front St. W., Toronto. Cost: Members \$50, others \$65. Info/register: www.empireclub.com

• **Transportation Breakfast** (Oct. 3, 7:30 - 9 a.m.) – Speaker: Metrolinx chair **Rob MacIsaac**. Topic: Transforming Transportation – A New Way Forward. Location: Toronto Board of Trade downtown centre, 77 Adelaide St. W. Cost: BOT members \$55, others \$75. Info/register: www.bot.com

• **Trade and Consumer Show Workshop** (Oct. 3, 8 - 11 a.m.) – Speaker: **Barry Siskind**. Location: London Convention Centre, 300 York St. Cost: London Chamber members \$75, non-members \$75, Bizexpo exhibitors free. Info: www.londonchamber.com

• **IFRS Financial Literacy for Directors** (Oct. 8, 7:30 a.m. - noon) – Location: The University Club, 380 University Ave., Toronto. Cost: Institute of Corporate Directors members \$125, others \$150. Info/register: www.icd.ca

• **Telus and Dragons' Den Celebrate Canadian Businesses** (Oct. 9, 8:30 - 10:30 a.m.) – Panel discussion. Topic: How Canadian Entrepreneurs Can Reach The Next Stage Of Success. Location: Toronto Board of Trade downtown centre, 77 Adelaide St. W. Cost: BOT members \$55, others \$75. Info/register: www.bot.com