

1
2
3
4
5
6
7
8
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ALBERTA ROYALTY REVIEW PANEL

Before Board Panel:

- Bill Hunter - Board Chairman
- Judith Dwarkin - Board Member
- Andre Plourde - Board Member
- Evan Chrapko - Board Member
- Ken McKenzie - Board Member
- Sam Spanglet - Board Member

HELD AT:

Oil Sands Discovery Centre
Fort McMurray, Alberta
June 4th, 2007
Volume IX

APPEARANCES

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Michael Borrell

)Total E&P Canada

Dale Hohm

)MEG Energy Group

Gary Lewis

)Private Citizen

	TABLE OF CONTENTS	
		Page No.
1		
2		
3	Opening Comments	4
4		
5	Presentation by Total E&P Canada	6
6	Questions by Board	16
7		
8	Presentation by MEG Energy Canada	36
9	Questions by Board	45
10		
11	Presentation by Gary Lewis	57
12	Questions by Board	61
13		
14		
15		
16		
17	Certificate of transcript	71
18		
19		
20		
21		
22		
23		
24		
25		

1 --- Upon commencing at 10:03 a.m.

2

3 THE CHAIRPERSON: Good morning, everyone.
4 Welcome and on behalf of the Royalty Review Panel thank
5 you for your interest in Alberta's royalty and tax
6 regimes. Your input is very important to the work that
7 we're going to do over the course of the summer and we
8 appreciate your time and effort.

9 I'd like to introduce the panel to you
10 today. On my far right is Ken McKenzie; next is Evan
11 Chrapko; in the corner is Andre Plourde; to my right is
12 Sam Spanglet. My name is Bill Hunter and to my left is
13 Judith Dwarkin. In the front row we have a large
14 gentleman that's extremely good at time management for
15 your presentation support. He'll be keeping track for
16 the presenter and myself.

17 Just a couple of housekeeping
18 opportunities. Individual presenters will be allowed
19 five (5) minutes and the -- followed by the panel's
20 opportunity to ask questions of clarification. Each
21 organization will be allowed ten (10) minutes and, again,
22 the panel will take liberties of asking questions of
23 clarification.

24 If you've brought a submission with you
25 and you want to hand it in, we have the registration desk

1 or there's a series of team members from the Royalty
2 Review Panel with us.

3 If you haven't made a submission and you'd
4 like to, if you go to our website,
5 albertaroyaltyreview.ca, there's a full set of mechanisms
6 on how you can make that submission.

7 Just from a safety opportunity there are
8 doors at the back left and back right; it's my WestJet
9 promo. Make sure you are aware of which door is closest
10 to you should we have an emergency and we all have to
11 leave in an orderly fashion.

12 If you have cells -- cell phones or
13 Blackberrys, I'd appreciate it if you'd shut them off so
14 we don't have an interruption during the presentations.
15 If you have to keep them on, please put them to vibrate
16 or some less intrusive method of informing you.

17 These proceedings are being transcribed.,
18 that does two (2) things: It allows us to put it on our
19 website so that all Albertans can share in the experience
20 of the exchange; as well, it makes sure that we have
21 detailed information in the question period.

22 I'd be happy to speak to any of the media
23 that are in attendance after the proceedings and I'd ask
24 that they respect the space of the presenter and the
25 panel during the proceedings and again on behalf of the

1 panel and Albertans thank you very much for your
2 attendance today.

3 This morning the panel has an opportunity
4 to hear from Mr. Borrell from Total Energy if
5 you're here, sir?

6 MR. MICHAEL BORRELL: Good morning.

7 THE CHAIRPERSON: Good morning.

8 MR. MICHAEL BORRELL: Thank you for the
9 introduction and good morning to everybody else, too.

10 THE CHAIRPERSON: Yes.

11

12 PRESENTATION BY TOTAL E&P CANADA LTD:

13 MR. MICHAEL BORRELL: So -- so I'm here,
14 thank you. I'm here representing Total E&P Canada. The
15 "E&P" stands for exploration and production incidentally.
16 It's to differentiate the exploration and production arm
17 of Total from the refining and marketing or chemicals
18 part of it and the "Canada" is quite obviously to
19 represent the subsidiary that -- that I'm from.

20 And we're pleased to have the opportunity
21 today to present to the Royalty Review Panel our
22 activities and our thoughts on this process and I think
23 it's worthwhile starting off with telling you a little
24 bit about who we are and why we think we've got something
25 to say today.

1 And although we, as an organization, Total
2 is new to the -- to the oil sands, we do have extensive
3 experience in -- in exploration and production and
4 refining and marketing, including heavy oil, around the
5 world and a parent company of which we're a 100 percent
6 owned subsidiary so the parent company Total SA is one
7 (1) of the world's largest oil and gas groups and we have
8 operations in more than a hundred and thirty (130)
9 countries.

10 However, and I think it's very important
11 for us, as an organization, and for everybody else to
12 recognize that the development of the oil sands is not
13 the typical oil and gas activity in the exploration and
14 production sense. And that, in many cases, the
15 challenges are -- are much greater that we face here than
16 in other more conventional areas.

17 So a couple of words, then, about our
18 activities here. We're the operator of the Joslyn Lease
19 with an 84 percent participating interest. Joslyn, over
20 the coming thirty (30) odd years is expected to yield
21 some two billion barrels of bitumen.

22 In addition to that, in our first entry
23 into the oil sands, we have a 50 percent participating
24 interest in the Surmont project which will have an
25 ultimate potential of -- of well more than two hundred

1 thousand (200,000) barrels OF bitumen per day; that's the
2 current Phase 1, 2 and 3 capacities, and we expect there
3 will be significantly more than that coming through from
4 Surmont.

5 And we've continued to grow the business
6 and we hold some additional leases in the oil sands. And
7 while we're happy with the portfolio we've got, it's not
8 sufficient for us and we'd like to continue to grow
9 because we think there is value in the -- the oil sands
10 for a company like ours.

11 The second part of that strategy is -- is
12 we're committed to upgrading our bitumen in Alberta, and
13 we'd like to keep the activity in the Province so that
14 Albertans and the Provincial Government can experience
15 the economic and social benefits of the activity of
16 upgrading.

17 Recently, for those of you that -- that
18 watch the press, we announced our intent to construct an
19 upgrader in Strathcona County and the first phase of that
20 is very much linked to the upstream activities, and we'll
21 have a capacity of the order of a hundred and thirty
22 (130) barrels -- a hundred and thirty thousand (130,000)
23 barrels capacity. We hope that would be commissioned in
24 around 2013/2014 time frame.

25 We think we've got a lot to offer the

1 Province, and we're looking forward to making Alberta our
2 home. And to do that, we'll be investing some \$10 to \$15
3 billion dollars over the next ten (10) years in the
4 Province, and providing in excess of a thousand (1,000)
5 employment opportunities for local Albertans. And we
6 think that we have a clearly-stated objective to become a
7 leading producer of the oil sands.

8 And it is because of this position that
9 our intention today is to, essentially, restrict my
10 comments and our comments to the oil sands part of the
11 royalty regime, and not to wander into the conventional
12 side where we have no activities and that's where I'll
13 concentrate the rest of my comments.

14 It's clear when you look at Alberta and
15 the oil and gas industry that this industry has been a
16 critical driver of the -- of the economy for a long time.
17 And it brings much prosperity, we believe, to Alberta and
18 Canada through, clearly, employment, contracting through
19 the investment side, the investment opportunities
20 themselves and obviously all of the revenue that's
21 generated through royalties and taxes.

22 And while some of the conventional side is
23 now starting to decline, the -- the oil sands have the
24 potential to continue this prosperity for the long term.
25 And we believe that the continued development of this

1 unconventional resource is particularly important to
2 Alberta as we go forward.

3 Now, when we look back over the past two
4 (2) to three (3) years, it's clear that oil prices have
5 risen significantly. But we shouldn't forget and
6 underestimate the volatility and uncertainty that lies
7 around oil prices and how that factors in as a -- an
8 investment decision and an influence on that investment
9 decision.

10 And I take one (1) example in the paper
11 that I've -- I've presented to you is the 1998 oil prices
12 that fell to around twelve (12) dollars a barrel. And
13 that did lead to significant reductions in investments
14 and activities.

15 And we, as an industry, and particularly
16 Total as a company, but I think we're representative of
17 any of the major oil and gas companies, have learned that
18 it pays to be very prudent when -- when you consider
19 long-term price scenarios for these sorts of multi-
20 billion dollar investments.

21 But again, looking at price is only one
22 (1) side of the -- and one (1) piece of the overall
23 equation and just importantly we need to look at costs.
24 So it's fair to say that oil prices have increased
25 significantly, but so have the project costs for things

1 like oil sands developments.

2 And when I talk about costs, it's not just
3 the upfront costs, what we tend to call the CAPX costs
4 that you make prior to investment -- I'm sorry, prior to
5 production startup, it's also what tend to be grouped
6 together as operating costs that allow you to operate the
7 facility for its twenty (20), thirty (30), forty (40),
8 fifty (50) years of life after you start to put it into
9 production.

10 And this is important and particularly
11 important for oil sands. And if we take the example of
12 an in situ project, up to 50 percent of the costs, and on
13 some occasions even slightly more than that, can be
14 expended after production is started. So it's not fair
15 just to concentrate on the upfront investment costs,
16 although those are significantly important to the
17 economics. But we also need to factor in the operating
18 costs and the sustaining capital investment that's
19 required to maintain these projects.

20 Now given our position in the oil sands, I
21 think it's fair to let others who've got direct cost
22 increases talk to you about those in more specific terms
23 and to illustrate those with some actual figures.

24 But I think sitting in our position, we
25 can -- we can judge from some of the experience of the

1 others that -- that costs have risen significantly and
2 continue to rise and that despite the first element I
3 mentioned are the costs -- sorry, the prices. The second
4 element, the costs, has eaten into the return or the
5 economics of these developments and the upfront
6 investments having increased significantly.

7 The risks for industry and the risks for a
8 company like ours are probably greater now than they've
9 ever been. So in addition to the costs, we look at many
10 other uncertainties and risks for these investments. For
11 these -- and it's fair to characterise them as
12 technically complex and huge investment projects and
13 that's one (1) of the things that differentiates the oil
14 sands with respect to other regimes around the world and
15 other more conventional oil and gas ind -- developments
16 is the size and the magnitude of the investments.

17 So what are the other risks, and these are
18 in no particular order, but I'd classify the -- the other
19 principal risks that we face here are -- the clearly
20 documented one (1) is the availability of skilled labour,
21 the greenhouse gas emissions and the need to address
22 climate change, clearly, water management, both for in
23 situ projects and particularly for mining projects, is an
24 issue that is increasing in -- in importance and -- and
25 one (1) that needs to be addressed.

1 We shouldn't forget geological risk. Many
2 people tend to think the Athabasca region, once you have
3 a lease within it, it's -- the -- the -- the bitumen is
4 clearly there and you will be able to develop it. We
5 shouldn't underestimate the geological risk. Not all of
6 these leases are of the same quality and that presents
7 additional uncertainties for you.

8 In the climate we're in, and we've
9 mentioned skilled labour and we've mentioned the -- the
10 cumulative effect of a number of projects, project delays
11 are significant and we've experienced some of those and
12 it needs to be factored in to the overall equation.

13 You then come into the regulated review
14 process and the long-term stability of the fiscal and
15 regulatory regime and the future evolution of those and
16 how to take account of that. So there's a fair list of
17 risks and uncertainties associated with these huge
18 technically complex projects.

19 But we shouldn't forget one (1) other one
20 (1), which is particularly for in su -- in situ projects,
21 so the SAGD type that we talk about. It's a very
22 immature technology and to date there's been significant
23 investment; hundreds of millions of dollars spent on
24 research and development and we need to continue to make
25 those investments in research and development to be able

1 to move the technology forward, to reduce some of the
2 uncertainties and make these projects more robust.

3 And the technology -- technological
4 challenges still exist as you go through the life of
5 these projects. And -- and we, as an organization with a
6 long-term view of these things, will continue to invest
7 in R&D and I think the industry needs to continue to in
8 R&D so that we can unlock the full potential of the oil
9 sands.

10 We can push the boundaries of technology
11 to meet the challenges, but only if we can maintain a
12 healthy industry that can do so. We talk about
13 multimillions of dollars per year of R&D investment
14 throughout a forty (40), fifty (50) a year lifetime. You
15 need to have a solid robust industry to be able to do
16 that.

17 Now if I can just take a step back to when
18 the royalty regime was first introduced here. My
19 understanding of the key objectives for the royalty
20 regime that we currently have were promoting the growth
21 of oil sands and their contribution to the economy and to
22 GDP, encouraging and promoting industry efficiency,
23 providing fiscal stability on a generic regime for all of
24 the projects that were to come forward, and finally,
25 provide a fiscal structure the would return equitable

1 share of the economic rent from oil sands developments to
2 the government.

3 And I think it's fair to say, looking
4 back, that the rate of development in the oil sands has
5 helped to achieve these objectives. But we should keep
6 in mind at this time, that while many projects have been
7 announced, there's a number of those projects that we
8 don't believe will come to fruition. And certainly the
9 pace of the development will not be that which has been
10 announced, it'll be significantly lower.

11 And you only need to look in the press
12 recently to see a number of projects that have suspended
13 or delayed because of the risks and uncertainties that I
14 tried to outline a little earlier.

15 THE CHAIRPERSON: Mr. Borrell, your --
16 your time is --

17 MR. MICHAEL BORRELL: Fast ticking away.

18 THE CHAIRPERSON: -- ran out. Can you
19 give us a paragraph, closing remarks?

20 MR. MICHAEL BORRELL: I think -- to
21 conclude, I think the royalty regime was put in place in
22 a consultation process and that was very positive. It
23 took a significant amount of time. If the Federal -- if
24 the Provincial Government is to think about changing the
25 current royalty regime, which has achieved its objectives

1 and is continuing to achieve those, we'd like to see a
2 consultation process in place again.

3 And we'd be very happy as an organization
4 and as part of an industry to contribute fully to that
5 process. So I hadn't seen that my time was running out,
6 sir, I had to take care of that, so --

7 THE CHAIRPERSON: If you'll allow us --

8 MR. MICHAEL BORRELL: -- that was how I
9 would conclude.

10 THE CHAIRPERSON: Okay. If you'll allow
11 us a few questions?

12 MR. MICHAEL BORRELL: Of course. By all
13 means.

14 THE CHAIRPERSON: Mr. McKenzie...?
15

16 QUESTIONS BY BOARD:

17 MR. KEN MCKENZIE: Yeah, you talked about
18 costs and this is clearly an issue. We've talked with
19 industry throughout this process and -- and we know that
20 -- that costs are beginning -- rising costs are beginning
21 to impinge on the economics of these big projects.

22 But because of the structure of the
23 existing oil sands royalty system, it's a -- it's a net
24 royalty after payout, it's responsive to costs.

25 MR. MICHAEL BORRELL: Yes.

1 MR. KEN MCKENZIE: Okay? Already, right?
2 Under the current structure. So why are you arguing that
3 the royalty system can't be changed? Are you -- are --
4 we have to make the distinction between -- because costs
5 are rising, we have to make the distinction between the
6 base that the royalty rate is applied to and the rate
7 itself. The base is already sensitive to costs. Right?
8 But currently the rate is not sensitive to anything.
9 It's just 25 percent flat on the -- on the base. We have
10 to make that distinction.

11 So I'm not quite sure I understand your
12 argument unless it's that we should maintain the net
13 royalty system, and I understand that. But is there
14 something deeper in your point that I'm -- so if -- if
15 you could just sort of try to explain that to me.

16 MR. MICHAEL BORRELL: When you
17 concentrate on the cost part of what I've talked about.

18 MR. KEN MCKENZIE: Mm-hm.

19 MR. MICHAEL BORRELL: I talked about
20 costs in relation to prices. What I'm trying to link is
21 -- is that the -- it's the overall economics of these
22 projects that we need to look at --

23 MR. KEN MCKENZIE: Mm-hm.

24 MR. MICHAEL BORRELL: -- and not one (1)
25 element of that which may be prices, which may be costs--

1 MR. KEN MCKENZIE: Mm-hm.

2 MR. MICHAEL BORRELL: -- which is the
3 overall and the overall tax structure, so --

4 MR. KEN MCKENZIE: Mm-hm.

5 MR. MICHAEL BORRELL: -- so this -- I
6 understand fully you're concentrating on royalties here,
7 but as an organization investing on this, we look at the
8 overall tax burden and we look at the overall economics
9 of the project.

10 MR. KEN MCKENZIE: Mm-hm.

11 MR. MICHAEL BORRELL: And we need to take
12 into account, and make sure that we take into account,
13 all of the various aspects that influence the economics
14 and the risks associated with these sorts of multi-
15 billion dollar investments.

16 So you're right to say costs have
17 increased. You're right to say that the net royalty
18 regime take account of those cost --

19 MR. KEN MCKENZIE: Mm-hm.

20 MR. MICHAEL BORRELL: -- increases
21 because it's a net regime.

22 MR. KEN MCKENZIE: Mm-hm.

23 MR. MICHAEL BORRELL: And that,
24 therefore, the cost element of that is taken account of.
25 What I'm trying to argue is that the royalty regime, as

1 it currently stands, actually has achieved its objectives
2 and -- and can continue --

3 MR. KEN MCKENZIE: Mm-hm.

4 MR. MICHAEL BORRELL: -- to achieve its
5 objectives even with the increases in prices that we've
6 seen and the increase in costs that we've seen.

7 MR. KEN MCKENZIE: Sure, just -- just to
8 sort of pursue this a little bit more, you know, the --
9 the fundamental underlying economics of the -- of the
10 projects are driven by many external things.

11 MR. MICHAEL BORRELL: Yes.

12 MR. KEN MCKENZIE: I think the best you
13 can ask for in terms of your royalty and your tax system
14 is that they're responsive to changing economic
15 conditions.

16 As you've indicated, the current system is
17 responsive, but you could argue that you could -- you
18 could make changes on the rate side, not the base, that
19 would not change the responsive of the system to -- to --
20 you know, to those external economic events.

21 MR. MICHAEL BORRELL: I think you're
22 absolutely right. You could make --

23 MR. KEN MCKENZIE: Yeah.

24 MR. MICHAEL BORRELL: -- alterations to
25 the system --

1 MR. KEN MCKENZIE: Right.

2 MR. MICHAEL BORRELL: -- to make it even
3 more responsive if you wanted to.

4 MR. KEN MCKENZIE: Right. Right.

5 MR. MICHAEL BORRELL: I think our
6 argument is to say that it is already responsive, and it
7 does fulfill the criteria that we laid out for it
8 originally. And that it takes into account prices and --
9 and costs and some of the other uncertainties.

10 MR. KEN MCKENZIE: Right, so it's --

11 MR. MICHAEL BORRELL: Our point today is
12 that -- is that the uncertainty on these projects and the
13 risks associated with these projects are if anything --
14 have, if anything, increased from the period when -- when
15 the royalty regime was put in place, and that now is
16 probably not the time to start dramatically altering it.

17 MR. KEN MCKENZIE: Okay. Thank you.

18 THE CHAIRPERSON: Judith...?

19 MS. JUDITH DWARKIN: Thank you. Good
20 morning.

21 MR. MICHAEL BORRELL: Good morning.

22 MS. JUDITH DWARKIN: I'd just like to
23 follow up on the conversation you've been having with Ken
24 and the -- the list of factors you gave us with -- and
25 you characterized them as besides costs there are a

1 number of other risks and you referenced the access to
2 skilled labour, greenhouse gas mitigation coping, water
3 management issue and a couple of others. And -- and to
4 my mind, those actually all devolve to costs as well.

5 So, if the royalty system is sensitive to
6 cost, in your opinion, would it not have been sensitive
7 to all these issues as well? If it's already to
8 sensitive to cost, we're talking about access to labour;
9 well, it's, really, it's a cost issue -- water
10 management, ultimately is a cost issue, greenhouse gas
11 mitigation, et cetera, so is -- is your suggestion that
12 you want a royalty -- the royalty system needs to be
13 sensitive to these emerging new types of costs for the
14 industry?

15 MR. MICHAEL BORRELL: In think the
16 royalty regime is, as we've already just discussed,
17 sensitive to costs. And some of the factors I mentioned
18 have a direct impact on the cost and, therefore, taken
19 into account by the royalty regime.

20 The point I was trying to make was that
21 the risks associated with these projects have increased
22 significantly because of these other factors. Now, we
23 can characterise some of those in the costs, but some of
24 them not. And therefore, when we're making an investment
25 decision, clearly we look at the economics of the project

1 and whether it makes sense for us to invest.

2 We also look at the risks associated with
3 that and that's where we get into skilled labour
4 shortages, the potential for project delays, the
5 potential for having underestimated the costs because of,
6 for example, climate change type issues where we need to
7 significantly improve over time as we go forward in our
8 project; technology for abandonment and reclamation of
9 the land.

10 These are the sorts of issues that come on
11 later in a project's life that we need to take into
12 account that -- that it's too simple to summarize them
13 just as costs. So I'm trying to get a -- give you an
14 impression of -- of the uncertainties associated with
15 these projects which weigh heavily on the investment
16 decision.

17 MS. JUDITH DWARKIN: And I would assume
18 that your company -- you have risk mitigation strategies
19 on both the price and the cost side then to address the
20 issue of potential new costs or emerging costs?

21 MR. MICHAEL BORRELL: Risk mitigation is
22 a -- is one (1) way of characterising it. I think what
23 we try to do as an organization is to fully understand
24 the cost implications of what we're doing, to take that
25 into account at the time we make the decision and to look

1 at the sensitivity in our projects to all of the various
2 elements in terms of cost increases or decreases, in
3 terms of delays, in terms of unknown technological
4 improvements in the future.

5 MS. JUDITH DWARKIN: So you're -- you're
6 saying you don't really pursue risk management or
7 mitigation strategies, it's more understand what the lie
8 of the land is and then try and ad -- make decisions that
9 will be robust?

10 MR. MICHAEL BORRELL: Absolutely, I think
11 that's a good characterisation of it. Risk -- risk
12 management tends to come back to a financial type aspect
13 in terms of hedging of prices or hedging of costs; that's
14 not something we would normally embark upon.

15 What we try to learn to do -- to -- to do
16 is to understand fully the costs and the uncertainties
17 associated with them and where the principle elements
18 that can impact the cost of the price that lie in the
19 future and how we can best organize ourselves to try and
20 address those beforehand.

21 MS. JUDITH DWARKIN: Okay, thank you.

22 THE CHAIRPERSON: Evan...?

23 MR. EVAN CHRAPKO: Thank you for your
24 presentation. Carrying on a little bit with the
25 uncertainties line of reasoning, it would seem to me that

1 some of the uncertainties can cut both ways and you
2 mentioned the geological risk and you're -- you're
3 correct in that everyone else we've been hearing from
4 seems to come out on the side of there being very little
5 risk in the oil sands play.

6 So first with reference to your geological
7 risk comment. You're saying something the opposite that
8 -- that we have been hearing, can you explain in a global
9 context with reference to E&P, why you believe there's
10 geological risks here higher than there is elsewhere?

11 MR. MICHAEL BORRELL: Well, I'm not
12 certain I said it was higher than elsewhere, but I'm
13 saying that there is still geological risk here, but it's
14 slightly different, in the sense that in other parts of
15 the world, one (1) of the major risks that one (1) faces
16 is in the exploration phase, whereas here that's
17 relatively limited.

18 But we shouldn't underestimate, then, once
19 you try and put some of these projects into production,
20 there's a -- still a significant geological risk
21 associated with that.

22 A SAGD type production, which is still
23 fairly immature, it hasn't been technically --
24 technically proven over a thirty (30) to forty (40) year
25 lifetime, which is what some of these projects have the

1 SAGD developments, they're very sensitive to water layers
2 within the reservoir, to boundaries and -- and
3 constraints on the development of the steam chamber which
4 is linked to the geology and -- and the reservoir
5 characteristics of the -- of the particular bitumen
6 accumulation one is trying to develop.

7 Thief zones that exist about the bitumen
8 levels, either from previous gas production or from gas
9 reservoirs that exist above or below the -- the bitumen,
10 these are all associated geological uncertainties that --
11 that add to the difficulties that one (1) will face. Now
12 that's the SAGD side.

13 Similar things exist on the mining side.
14 There are -- they're -- they're more easily addressed on
15 the mining side because you actually have the mine face
16 to be able to study them, but the -- but the levels of
17 finds, the levels of sand, the -- the percentages of
18 bitumen are all uncertainties associated with mining
19 aspects.

20 When you get into the projects that are --
21 that are on leases that were not the first ones developed
22 were the best accumulations were quite clearly.

23 MR. EVAN CHRAPKO: Would it be fair to
24 say that precisely because, in your words, the technology
25 is unknown or immature, and with an investment of

1 multiple billions of dollars into this so-called immature
2 technology, that uncertainties might come out with
3 positive surprises, as well as the negatives that you're
4 mentioning? Is it a balance that way?

5 MR. MICHAEL BORRELL: I think it's
6 clearly a balance, yes. I think with the -- clearly,
7 there's an upside and a downside associated with
8 geological risk. It depends where you've -- you've set
9 up your project in the initial investment phase; whether
10 you've put everything in a green light to be able to
11 sanction it, and most of the risk will be on the
12 downside. If you've taken a balanced view, then -- then,
13 yes, there will be some upside associated with some
14 downside.

15 MR. EVAN CHRAPKO: Thank you.

16 THE CHAIRPERSON: Sam...?

17 MR. SAM SPANGLET: Good morning. I've a
18 couple of -- two (2) questions, sorry, brief ones. The
19 first one is the list of risks that you outlined --

20 MR. MICHAEL BORRELL: Mm-Hm.

21 MR. SAM SPANGLET: -- or the six (6),
22 seven (7), eight (8) risks that I -- I can argue, but not
23 now, that some of them are controllable. The executives,
24 which I was one of them, so I know. So that -- that part
25 keeps bugging me. The companies come up with it all the

1 time, you know, costs, surely I'm in fault too, so, some
2 of the cost.

3 The other part is you gave a list of
4 risks. Is there any reason why we should -- why you
5 should invest in that? Because you didn't say any --
6 anything that is to why would you invest in in situ in
7 oil sands. You said why -- you gave a list of why you
8 shouldn't without the risks, and why should you if that's
9 the case?

10 The list was so long on the risk side, is
11 there any couple of points why it's good to invest in it?

12 MR. MICHAEL BORRELL: I would have
13 addressed that if I'd finished my presentation. I didn't
14 manage my time effectively.

15 MR. SAM SPANGLET: That's why I give you
16 the opportunity through my question. I give you the
17 opportunity. MR. MICHAEL BORRELL: Absolutely.

18 MR. SAM SPANGLET: Okay.

19 MR. MICHAEL BORRELL: There are clearly -
20 - there's clearly value in the oil sands long term for a
21 company like ours to be able to manage; control some of
22 the risks, uncertainties, I talked about such that we
23 believe we can unlock significant value from the oil
24 sands in the long term.

25 And that's why we're here. That's why the

1 oil sands attract a company like Total --

2 MR. SAM SPANGLET: Yeah.

3 MR. MICHAEL BORRELL: -- because of the
4 long-term nature of the business; the ability to build a
5 significant position; the ability to bring technical
6 knowhow to address some of the things I talked about; and
7 to be able to build long-term value for itself and for
8 the community in which it operates. And that's why we're
9 here.

10 MR. SAM SPANGLET: Okay. Good.

11 MR. MICHAEL BORRELL: So while I have
12 concentrated on the first part of what I said on the
13 risks and uncertainties, I was intending to get to the
14 situation that we are still here, we are intending to
15 invest.

16 Our belief is that the regime that is
17 currently in place with stability it's had to date, is
18 the right regime for us to continue to invest.

19 MR. SAM SPANGLET: Yeah.

20 MR. MICHAEL BORRELL: And for Alberta to
21 continue to attract companies like Total to make these
22 sorts of investments.

23 MR. SAM SPANGLET: Oh, thank you. Second
24 question.

25 The greenhouse gases that you mentioned

1 which is a very big concern and -- and I'm glad that you
2 brought it up. Do you see any way that we can sort of
3 link it with the royalty regime; the performance of
4 companies regarding greenhouse gasses, or it should be
5 managed in a different way do you think? Just -- just a
6 thought. Give me some material for thought or water for
7 that matter, that type of thing.

8 Do you see any -- any way it can be
9 encouraged or discouraged, if you wish, through the oil
10 system which would be different mechanism?

11 MR. MICHAEL BORRELL: I think our view on
12 that is that these -- these issues are sufficiently
13 complex that we should not try and mix them. I think the
14 royalty regime is set up for the Province of Alberta to
15 be remunerated based on the value of the resource that we
16 are exploiting and developing and producing.

17 Issues around climate change and water
18 management, to take the two (2) examples that you used
19 but I think they're the two (2) best ones in fact,
20 looking forward for environmental, I think there are
21 better mechanisms --

22 MR. SAM SPANGLET: Okay.

23 MR. MICHAEL BORRELL: -- to be able to
24 try and address those issues which are the sorts of
25 things the Provincial Government has already started to

1 put in place and propose for the -- for the climate
2 change-type issue. And the Federal Government has
3 followed.

4 The water management is clearly a
5 challenge for the whole industry --

6 MR. SAM SPANGLET: Yes.

7 MR. MICHAEL BORRELL: -- with the
8 Provincial Government.

9 MR. SAM SPANGLET: Yes.

10 MR. MICHAEL BORRELL: And I think that
11 the industry has started to make some significant
12 progress on that and will continue to progress on that
13 one (1). I think personally we should be separate --

14 MR. SAM SPANGLET: Separate.

15 MR. MICHAEL BORRELL: -- the issues of
16 royalty and -- if I can call the other one (1)
17 environmental issues.

18 MR. SAM SPANGLET: Thank you. Thank you
19 very much.

20 THE CHAIRPERSON: Mr. Plourde...?

21 MR. ANDRE PLOURDE: Thank you, thank you
22 very much. Thanks for your presentation and thank you
23 for the material you circulated ahead of time. Two (2)
24 types of questions for you, please, if I may. First is
25 something you alluded to in your presentation but didn't

1 speak of -- to is the situation as a way on.

2 How does the -- how do the fiscal terms in
3 Venezuela compare to the fiscal terms in Alberta? And I
4 think Total is in a good position to shed some light on
5 that since you're active in both areas.

6 MR. MICHAEL BORRELL: You're right, we're
7 active in both areas. I don't know whether in a good
8 position to shed any light. I think that the situation
9 in Venezuela is in turbulent and very difficult to draw
10 long-term conclusions from it and therefore, I would
11 concentrate my comments on -- on Alberta and the regime
12 here.

13 I think the regime that has been put in
14 place here, with the stability, that we anticipate going
15 forward -- and that's one (1) of the key elements, is
16 stability, one (1) of the key differences between other
17 parts of the world and -- and Canada as a whole, in
18 Alberta particularly -- is one (1) of the things that
19 interests a company like ours to come and invest these
20 sorts of quantities of money with a knowledge as to where
21 we're going in the future for the fiscal and -- and
22 regulate -- regulatory regime.

23 MR. ANDRE PLOURDE: Any plans for Total
24 to continue to be present in Venezuela over the -- in --
25 in the future?

1 MR. MICHAEL BORRELL: That's a very
2 difficult question to answer in this forum. I think I'd
3 like to leave the Venezuela question to those that are
4 responsible for Venezuela. I have enough challenges
5 here, looking after the -- the Athabasca investment in
6 Alberta and the challenges associated with those. I'm
7 not trying to avoid the question, but I think it's --
8 it's right that we should be concentrating on our -- on
9 our assets here --

10 MR. ANDRE PLOURDE: So should I conclude
11 from this that Total is a very decentralized decision
12 making process that essentially a -- groups are
13 autonomous to make their own decisions and investment
14 projects are not in competition with one (1) another?

15 MR. MICHAEL BORRELL: Total is actually a
16 very centralised organization, so many of our principle
17 decisions are taken in the head office and the -- and the
18 subsidiary that I'm responsible for would make motivated
19 recommendations, is the way I like to call it, to the
20 head office and to our shareholder, up until -- a
21 shareholder Total SA, the -- the 100 percent shareholder
22 of this subsidiary, as well as to our partners, we need
23 to make recommendations for approvals of projects.

24 And when we talk about approvals of
25 projects, we talk about all the uncertainties and risks

1 we mentioned earlier, as well as the overall fiscal
2 position and regulatory position which we find ourselves
3 recommending to invest or not in a project.

4 MR. ANDRE PLOURDE: Okay, thanks. Last -
5 - second set of question -- second type of question is,
6 you were mentioning about the -- if I understood this
7 correctly earlier in exchanges, kind of the approach that
8 you take to evaluating projects is not to have a risk
9 management strategy in place, but to look at the
10 consequences -- potential consequences and make decisions
11 based on those kinds of situations.

12 How would you react to saying, in order to
13 create some incentives for vigilance on the side of
14 costs, for example, should the royalty system be more
15 vigilant go to -- or be a source of those kinds of
16 incentives?

17 MR. MICHAEL BORRELL: That's an
18 interesting question. I mean, let me be slightly clear
19 about the risk management. We obviously try to manage
20 all of risks -- all of the risks and all of the
21 uncertainties associated with a project. That's our job,
22 is to manage to those uncertainties.

23 What I meant by not doing specific risk
24 management techniques, is I'm referring to the financial
25 aspects of some risk management, which is what tends to

1 be concentrated on --

2 MR. ANDRE PLOURDE: Right.

3 MR. MICHAEL BORRELL: -- when those words
4 are used in discussions. So clearly we're trying to
5 manage properly as an organization and as the executives
6 as Mr. Spanglet was talking about, the -- the
7 uncertainties associated with our investments.

8 Now, should the royalty regime encourage
9 us further to try and manage costs, my personal view as
10 an executive in Total, is we're already significantly
11 concerned about costs, to manage those as effective --
12 effectively as we can without requiring any additional
13 incentive through a royalty type regime.

14 I mean, if you look at the risks
15 associated with making these investments, it is the
16 company itself that is making the investments upfront
17 prior to any payback, and therefore, we bear the
18 principle risk on any cost overruns and, therefore, I
19 think we're fully incentivized to try and manage those to
20 the best of our ability.

21 MR. ANDRE PLOURDE: Okay, great.

22 MR. MICHAEL BORRELL: And I don't believe
23 we need any additional incentive to do so.

24 MR. ANDRE PLOURDE: Okay, thank you.

25 THE CHAIRPERSON: Last question. Do you

1 remember what the price per barrel was when you made the
2 decision as an investor to come to Northern Alberta in
3 either the acquisition of the Joslyn lease or the
4 partnership in Surmont?

5 MR. MICHAEL BORRELL: There would be a
6 number of key dates we'd have to look at and -- and no, I
7 don't off the top of my head remember the oil price in
8 each of those situations. The -- the pilot on Surmont
9 was decided back in 1998. The investment decision to
10 develop the Phase 1 commercial development of Surmont was
11 -- was in 2002, at the end of 2002.

12 Total increased its participation in
13 Surmont through the acquisition -- joint acquisition with
14 ConocoPhillips of Devonshire, I believe, in 2003, but I'd
15 have to check that date. And then the acquisition of
16 Deer Creek was announced in the middle of 2005 and
17 completed at the end of 2005. And I'd have to go back
18 and look at the individual prices for each of those.

19 THE CHAIRPERSON: That's fine. No,
20 that's fine. We can do that. Thanks very much. We
21 appreciate your presentation this morning and your
22 contribution.

23 MR. MICHAEL BORRELL: Thank you.

24 MR. SAM SPANGLER: Thanks very much.

25 THE CHAIRPERSON: Have a great day.

1 MR. MICHAEL BORRELL: Thank you.

2 THE CHAIRPERSON: And please be careful
3 when backing up.

4 MR. MICHAEL BORRELL: Thank you. I
5 wouldn't like to add one (1) additional risk.

6

7 (BRIEF PAUSE)

8

9 THE CHAIRPERSON: Next the panel has an
10 opportunity to hear from Mr. Home of MEG Energy Group, if
11 you're here, sir.

12

13 (BRIEF PAUSE)

14

15 THE CHAIRPERSON: Good Morning.

16

17 PRESENTATION BY MEG ENERGY GROUP:

18 MR. DALE HOHM: Good morning. Thank you
19 Mr. Chairman and members of the panel. We appreciate the
20 opportunity to provide our companies perspective on
21 Alberta's royalty regime. My presentation today focusses
22 on royalties as they pertain to the oil sands.

23 The panel has received a lot of
24 information on a macro level. This morning I'll provide
25 a bit of a case study on how a start-up organization like

1 MEG has approached oil sands development, and how a
2 development like ours is beneficial to the resource
3 owner; the people of Alberta.

4 Let's start quickly with a brief overview
5 of what MEG Energy is. MEG is a private company, it was
6 incorporated in 1999 by Albertans and is managed by
7 Albertans. The Corporation acquired it's first Crown oil
8 sands lease in March of 1999, but over the last eight (8)
9 years, the Company has acquired a total of 555 square
10 miles of oil sands leases.

11 And this investment has been premised,
12 amongst other things, on the Alberta generic oil sands
13 regime that was -- that was introduced a decade ago. The
14 existing regime's principles of fairness, stability,
15 certainty, transparency, competitiveness and balanced
16 risk sharing are important in any business, but
17 especially so in the business like the oil sands because
18 of the long time horizons for development and the very
19 high upfront capital intensity.

20 Our first oil sands development project is
21 expected to start generating positive cash flow in the
22 year 2009; so that's ten (10) years following our first
23 investment in the oil sands.

24 MEG's project is very substantial. Our
25 first development at Christina Lake is estimated to

1 contain over two (2) billion barrels of recoverable
2 resource and has the potential to support long-term
3 sustained production of over two hundred thousand
4 (200,000) barrels per day for a period of more than
5 thirty (30) years.

6 This map shows, obviously an outline of
7 the Province of Alberta. Within that, the Athabasca
8 deposit in the darker green colour. To the south in that
9 Athabasca deposit is MEG's area of interest. So all of
10 our company's assets are in the southern Athabasca Oil
11 Sands in a region about 120 to 180 kilometres south of
12 Fort McMurray.

13 In developing our principal asset at
14 Christina Lake, MEG uses an in situ developmental
15 technology called steam assisted gravity drainage; the
16 acronym for that is SAGD. Well, mining attracts most of
17 the attention because of the eye-catching scale of those
18 projects, it is estimated that 80 percent of Alberta's
19 oil sands will be developed using in situ development
20 technology, so it's a very important technology as we go
21 forward.

22 One (1) of the benefits of SAGD is that
23 economies of scale can be realized at much lower
24 production volumes than for the big mining and upgrading
25 projects. For that reason, SAGD projects such as MEG's

1 are generally being developed in multiple phases. These
2 multi-phases developments have a number of benefits to
3 the company as well as to Albertans.

4 As you can see on this slide, MEG plans to
5 bring on an additional phase of its development
6 approximately every two (2) years. This facilitates a
7 very orderly development. We don't need to staff up for
8 a mega project for a two (2) or three (3) year time span
9 and then staff down again after the end of that
10 construction phase, rather we can maintain a fairly
11 consistent field construction workforce over the course
12 of this ten (10) years of development.

13 This type of development then puts less
14 stress on municipal infrastructure. Just as an example,
15 our peak field construction workforce for Phases 1 and 2
16 of our development is estimated to be about five (5) to
17 six hundred (600) people; that's in large contrast to the
18 mega projects that you read about that are talking about
19 five (5) to ten thousand (10,000) people during the peak
20 construction phase.

21 So importantly developing projects in
22 these more bite size pieces helps facilitate stronger
23 cost control which benefits both the company and the
24 resource owner. This page shows a production profile for
25 our first development at Christina Lake and you can see

1 with these fairly loud colours that over that first ten
2 (10) years production ramps up fairly swiftly, but when -
3 - once that development is complete, you maintain a very
4 high level of production for many decades. So projects
5 like this will benefit Albertans for many decades to
6 come.

7 The capital requirements to develop these
8 projects are enormous. This quantity of capital isn't
9 available just from Alberta or from Canada; we as a
10 company and as an industry are reliant on the
11 international capital markets.

12 The red bars on this graph show the
13 capital our company has raised over the past eight (8)
14 years while the yellow bars show the capital that has
15 been invested through 2006 with estimates for the years
16 2007 through 2016.

17 A few things to note on this slide. As I
18 mentioned, MEG's first crown oil sands leases were
19 acquired in 1999, because of the scale here you can't
20 even see the amount of that investment, but I can assure
21 that for a few unemployed geologists at the time whose
22 office was the Plus 15 in Calgary for the first four
23 years, it was a very substantial investment.

24 After acquiring those first leases in 1999
25 it took another four (4) years to accumulate a land base

1 that was of sus -- sufficient to -- to support an
2 economic in situ oil sands development. So you can't
3 start from day one (1) -- sometimes it takes a while to
4 accumulate the land base that required. MEG has received
5 EUB approval for the first commercial phase of this
6 development just in March of this year and we expect to
7 have startup of the project in early 2009.

8 In 2006, MEG invested just about \$1
9 billion in our project and half of that was for drilling,
10 seismic, regulatory work, engineering and project
11 development costs, but the other half was to acquire
12 additional oil sands leases again, in the Southern
13 Athabasca region. Over the next ten (10) years assuming
14 favourable project economics and capital availability,
15 MEG could invest between half a billion and a billion
16 dollars per year just for its development at Christina
17 Lake.

18 So where does all this money come from?
19 My -- my kids seem to think I'm an ATM, but the bank of
20 daddy doesn't have deep enough pockets for a kid like
21 MEG. My kids, just like MEG -- like my kids, MEG doesn't
22 have its own cash flow; we don't have existing operations
23 to support our spending, so we're totally reliant on
24 external sources of capital to fund the development that
25 we have in Alberta.

1 In the early years, Canada, Alberta and
2 Calgary were able to satisfy our capital requirements,
3 but our ongoing capital needs are now being met by the
4 international debt and equity markets. Without access to
5 the international debt and equity markets, MEG would not
6 be able to develop these oil sands assets. An
7 undeveloped oil bitumen does not generate any benefit for
8 the resource owner, the people of Alberta.

9 So how do international investors view the
10 opportunity that we have in our Province. Because of
11 MEG's ongoing capital requirements, I spent the last
12 three (3) years of my life speaking with potential
13 investors in Canada, the United States, Asia, Europe and
14 even the Middle East.

15 These investors compare opportunities in
16 Alberta to the vast array of opportunities they have
17 throughout the world. International oil and gas
18 investors' views of the Province of Alberta may be
19 summarized as follows:

20 Alberta is a mature, high-cost energy
21 basin.

22 Conventional oil and gas resources are
23 small.

24 Oil sands are world-class opportunity in
25 size, but the lower quality resource makes it expensive

1 to develop.

2 Once in operation, margins are low due to
3 higher operating costs and lower selling prices.

4 That said, they view Alberta as being a
5 good place to do business. Our royalty, regulatory and
6 tax regimes are stable but -- are stable and stringent,
7 but importantly, unlike very many other resource-rich
8 areas, our regime is stable and not subject to
9 retroactive and arbitrary change.

10 As my wife tells her friends about her
11 bald accountant husband, he is not great looking, he's
12 not that exciting, but he's stable and he could be a good
13 breadwinner. So what are the benefits to stakeholders?
14 I think it would be a mistake to solely look at royalties
15 as the sole benefit to Albertans. The benefits of oil
16 sands development include not only royalties, but the
17 Crown lease bonus payments when one first acquires a
18 lease, the creation of skilled employment opportunities
19 and tax revenues for all three (3) levels of government.

20 These benefits accrue to Albertans
21 throughout the life of the project starting right at day
22 1 when we acquire a lease. The 1 percent royalty, I
23 believe, is really a red herring because that royalty is
24 of relatively short duration, particularly, in this
25 commodity price scenario that we're in today.

1 The 25 percent royalty applies to the
2 great majority to an oil sands project life. The
3 benefits to our investors, though, are quite a bit
4 different. Our investors won't be able to receive a
5 dividend for our company until the full development of
6 our project is complete. So they've got about a fifteen
7 (15) year wait from when we first started and we got our
8 first lease to when our project development is complete;
9 that's when dividends can start accruing to our
10 shareholders.

11 And it's because of that long time frame
12 that the existing Alberta generic oil sands regime's
13 principles of stability and fairness are very important.
14 You have to have that long-term, stable regime.

15 THE CHAIRPERSON: Mr. Hohm, you've ran
16 out of time. Would you like to go to your conclusion
17 page or --

18 MR. DALE HOHM: Okay. The conclusions
19 are fairly straight forward. Alberta's existing
20 conventional resources are in decline. There remains a
21 very good opportunity to develop our oil sands and other
22 non-conventional assets in Alberta.

23 In order to do that, companies like MEG
24 require access to -- to the international markets. So
25 that's very important to us. Something that attracts

1 international investors to our markets is the stability
2 of our regime and the view that we're not going to have
3 arbitrary changes to the existing regime. So that's
4 important to them.

5 We believe the existing oil sands royalty
6 regime is working very well to the benefit of all
7 Albertans. And by maintaining that regime, we can
8 continue to benefit Albertans for many decades to come.
9 Thank you.

10 THE CHAIRPERSON: Thank you. If you'll
11 allow us a few questions.

12 Andre...?

13

14 QUESTIONS BY BOARD:

15 MR. ANDRE PLOURDE: Thank you. A few
16 questions for you please. Thanks for your presentation
17 and thank you for circulating it ahead of time. Thank
18 you very much.

19 You were talking about building your
20 projects in kind of a short -- shorter time span -- over
21 shorter -- smaller units, bite-size chunks or whatever
22 you used.

23 MR. DALE HOHM: Yes.

24 MR. ANDRE PLOURDE: What are the per-unit
25 cost consequences of proceeding in that manner compared

1 to building it big right off the bat?

2 MR. DALE HOHM: I guess the overall
3 benefit is some of it has to do with access to capital as
4 well, Andre. So by building it in these smaller pieces,
5 the amount of capital required at the outset is smaller.
6 Certainly, for the first phases of production, the
7 capital costs per unit of production are still very high.
8 But then as one gets the infrastructure in place, it's
9 the future phases of production -- future phases of
10 development, excuse me -- that really support the overall
11 economics.

12 So, the first few phases can be quite
13 expensive. They can be between thirty (30) and fifty
14 thousand (\$50,000) dollars per daily barrel of
15 production. But subsequent phases, after you have the
16 infrastructure in place, the costs come down quite
17 significantly. Today we'd estimate between twenty (20)
18 and thirty thousand (\$30,000) dollars per day -- per
19 daily barrel of production.

20 MR. ANDRE PLOURDE: Okay. But how would
21 that compare to, let's say, trying to -- let's say you
22 had access to capital, so let's try and forget that --
23 that sort of issue.

24 MR. DALE HOHM: Mm-hm.

25 MR. ANDRE PLOURDE: How would that

1 compare to just going right now -- building a big project
2 right away?

3 MR. DALE HOHM: I'm not --

4 MR. ANDRE PLOURDE: Higher per unit costs
5 or lower per unit costs?

6 MR. DALE HOHM: In fact, one large
7 development, right at the outset, might be cheaper on a
8 per-unit basis.

9 MR. ANDRE PLOURDE: Right.

10 MR. DALE HOHM: But one couldn't really
11 develop it in that fashion because one has to assess the
12 geology of the entire lease because you'd have to get to
13 that production -- you'd have to have sufficient
14 horizontal well pairs --

15 MR. ANDRE PLOURDE: Right.

16 MR. DALE HOHM: -- to support production
17 at that level. So by doing it in these smaller pieces,
18 we don't have to define completely the resource or a
19 whole property right at the outside.

20 MR. ANDRE PLOURDE: Right.

21 MR. DALE HOHM: We can do that over a
22 period of years. So by doing it in these bite-size
23 pieces, in fact, it brings forward the initial production
24 date from what it would be otherwise.

25 MR. ANDRE PLOURDE: So you don't have to

1 build the entire development before you start earning
2 returns?

3 MR. DALE HOHM: That's --

4 MR. ANDRE PLOURDE: That's a fair
5 statement. Would that be right?

6 MR. DALE HOHM: That's correct.

7 MR. ANDRE PLOURDE: Okay.

8 MR. DALE HOHM: It's just a long period
9 of time before we're able to get those returns.

10 MR. ANDRE PLOURDE: Okay. Great. Last
11 question is on -- and I'll try to figure out where it is
12 that you say on -- on slide 8, you say Alberta's royalty
13 regulatory tax regimes are stringent. Compared to what?

14 Compared to which other regulations or is
15 this -- is this an absolute or relative term? Put it
16 that way.

17 MR. DALE HOHM: Well, I guess it's a
18 relative term. And I'd defer to CAPP and some of those
19 that have done much more analysis on regimes outside of
20 Alberta.

21 MR. ANDRE PLOURDE: Okay.

22 MR. DALE HOHM: This is -- MEG is an
23 Alberta company and this is the only place that we do do
24 business.

25 MR. ANDRE PLOURDE: Okay. So this is

1 not --

2 MR. DALE HOHM: So we talk -- we talk to
3 international investors about our regime. It is the --
4 certainly from the standpoint of income taxes and
5 environmental regulations, they see things as being more
6 stringent here than in other parts of the world, so
7 that's a factor for them.

8 MR. ANDRE PLOURDE: Okay. So, basically,
9 if I can get this -- sorry, we -- we'd look for those
10 kinds of evidence of relative stringency or not compared
11 to other systems. What you're telling me is that
12 basically your conclusion is based on other peoples'
13 analysis, not that you have anything to contribute to
14 that. Is that fair?

15 MR. DALE HOHM: I would refer to CAPP's--

16 MR. ANDRE PLOURDE: Okay. Great.

17 MR. DALE HOHM: -- I would do that, yes.

18 MR. ANDRE PLOURDE: Thank you.

19 THE CHAIRPERSON: Judith...?

20 MS. JUDITH DWARKIN: Good morning.

21 MR. DALE HOHM: Good morning.

22 MS. JUDITH DWARKIN: I have a couple of
23 questions. You note that the -- your investors who've
24 put forward the billions of dollars so that you can build
25 your project aren't going to see a return in -- in the

1 sense of dividends for fifteen (15) years. But I would
2 suspect that some of those investors are seeing share
3 price -- price appreciation well in advance of that
4 fifteen- (15) year milestone.

5 And would you consider that a return as
6 well to those investors?

7 MR. DALE HOHM: That is a return to those
8 investors, but for MEG -- and we are a private company --

9 MS. JUDITH DWARKIN: Mm-hm.

10 MR. DALE HOHM: -- so our shares are not
11 traded on any exchange, they're really locked in until
12 there is a liquidity event of some kind. And then that
13 return is purely contingent upon our success in the
14 development of our project.

15 MS. JUDITH DWARKIN: Thank you. My
16 second question refers to a statement that you make on
17 slide 7 where you're identifying sources of capital and
18 the sentence reads:

19 "An undeveloped barrel of bitumen does
20 not generate any benefit to the
21 resource owner."

22 Would you elaborate on what you mean by
23 that?

24 MR. DALE HOHM: When I talk about the
25 resource owner I'm talking about the people of Alberta.

1 One of our directors is the Honourable Peter Lougheed,
2 and he points out to us at every meeting that the
3 resource owner is the Province of Alberta.

4 Saying if that barrel stays in the ground,
5 there aren't returns being generated to the citizens of
6 the Province through lease bonus payments, the creation
7 of employment or through Crown royalties.

8 MS. JUDITH DWARKIN: Although when you
9 buy the -- when you make your bonus bid you are buying
10 the reserves in the ground and they aren't developed. So
11 the Crown does receive that benefit up front.

12 MR. DALE HOHM: That's correct. But if -
13 - if the regime is such that development is not
14 warranted, then those lease payments aren't going to be
15 made to the Crown either. I think because of the -- the
16 strong regime that we had in the Province of Alberta,
17 you're seeing those bonus payments going up very
18 significantly over the course of the last few years.

19 MS. JUDITH DWARKIN: Would you say --
20 would it be fair to say that the biggest factor in the
21 go/no-go decision though is price referencing the last
22 few years?

23 MR. DALE HOHM: You know when we're
24 analysing our project we look at all the components, the
25 -- the commodity price, the royalties, the tax regime,

1 and -- and the costs.

2 MS. JUDITH DWARKIN: Mm-hm.

3 MR. DALE HOHM: And there are a lot of
4 those things that are moving in tandem so the higher
5 commodity prices have certainly led to an increase in the
6 cost of development as well. So one -- one can't just
7 isolate one (1) particular factor. One has to look at
8 the economics of the whole development and all the
9 different inputs to that.

10 THE CHAIRPERSON: Evan...?

11 MR. EVAN CHRAPKO: Thanks for your
12 presentation. You mentioned that the generic regime's
13 goals were the -- one (1) of them was a balanced risk
14 sharing so focussing on that did -- did they get it
15 right, in your opinion, by overlooking high world oil
16 price scenarios or by -- in the case of pre-payout
17 effectively the -- the system set up as it is protects
18 against the low price scenario, presumably, when you were
19 making your decisions in '97/'98 and then afterwards
20 having a flat percentage on -- on the net which includes
21 all the costs and includes the rate of return?

22 MR. DALE HOHM: Mm-hm.

23 MR. EVAN CHRAPKO: Did they balance the
24 risks correctly in the generic regime?

25 MR. DALE HOHM: Well, certainly it -- it

1 has worked for -- for our company and again just
2 focussing on the -- the 1 percent in particular we're
3 going to be developing our project over an extended
4 period of time and that 1 percent royalty at the outset
5 really helps us minimize the additional capital that we
6 have to bring in from international financial markets.
7 It helps us bring along the development over the course
8 of a ten (10) year timeframe.

9 I don't -- I certainly couldn't
10 characterize the existing regime as being overly generous
11 today as -- as some other speakers have already pointed
12 out. There are some of the -- some projects that are not
13 being developed that had been planned.

14 So I think the -- the best projects are
15 going forward; others will be delayed. I think with the
16 -- the 25 percent regime the province certainly does
17 share in the increase in commodity prices equitably with
18 -- with other investors.

19 MR. EVAN CHRAPKO: Thank you.

20 THE CHAIRPERSON: Sam...?

21 MR. SAM SPANGLET: Good morning.

22 MR. DALE HOHM: Good morning.

23 MR. SAM SPANGLET: First of all, I
24 sympathize with your analogy as far as the bold husband.

25 MR. DALE HOHM: You're cuter than me,

1 though.

2 MR. SAM SPANGLET: Just a minute now.
3 Just for curiosity you -- you are heavy -- heavy oil
4 producer. You're going to be -- are you planning to
5 operate it or just planning to sell it as heavy oil to --

6 MR. DALE HOHM: Because of the costs of
7 upgrading particularly for a -- a private, independent
8 company, we're avoiding those costs at the early stages
9 of our project. What we have invested in is a pipeline
10 that will take our -- our product down to the -- the
11 refining and upgrading hub as developing northeast of
12 Edmonton in the Sturgeon/Redwater area.

13 So that's where we'll take our production
14 initially. We are also investing in the development of
15 technologies to do some amounts of upgrading at a --
16 hopefully at a more cost effective level than some of the
17 existing upgrading options so we're constantly looking at
18 technologies to increase the value of our project.

19 MR. SAM SPANGLET: No further question.
20 Thank you.

21 THE CHAIRPERSON: Ken...?

22 MR. KEN MCKENZIE: Thanks very much. You
23 talked about the need to avoid arbitrary changes in the
24 royalty system so I'll just make it -- this is an
25 editorial aside. I -- I presume that you're in favour of

1 well-reasoned changes based upon rigorous review and
2 analysis.

3 MR. DALE HOHM: Oh, and -- and as an
4 Albertan I'm certainly in favour of what --

5 MR. KEN MCKENZIE: Mm-hmm.

6 MR. DALE HOHM: -- of what is being done
7 with this -- with this panel. It's more in the line of -
8 - where I'm coming from is the substantial investment
9 that our shareholders have made in purchasing undeveloped
10 land based on the existing royalty regime. If there were
11 retroactive changes that change that regime after this
12 first investment, that would be troubling I think to
13 investors.

14 MR. KEN MCKENZIE: I understand and --
15 and that segues nicely into an actual question which is -
16 - which is about grandfathering and retroactivity.

17 MR. DALE HOHM: Mm-hm.

18 MR. KEN MCKENZIE: I mean this is clearly
19 an issue that -- that we need to think about and have
20 been thinking about.

21 Do you have any thoughts on -- on sort of
22 where -- you have to draw a line at some point --

23 MR. DALE HOHM: Mm-hm.

24 MR. KEN MCKENZIE: -- and I mean that may
25 be -- that's an issue that needs to be addressed.

1 Do you have any thoughts on where that
2 line should be drawn?

3 MR. DALE HOHM: When we're making
4 investment decisions we're making those decisions based
5 on the regime that's in -- in place at the time.

6 MR. KEN MCKENZIE: Mm-hm.

7 MR. DALE HOHM: So for the lands that we
8 have currently I think again that would be troubling to -
9 - to our investors if there were changes to the royalties
10 that we would pay on development of those leases that we
11 have already.

12 MR. KEN MCKENZIE: So in that case the --
13 the line in that case you would say would be lease
14 acquisition basically which is the initial phase, you
15 know, as you say first phase of many.

16 MR. DALE HOHM: That's correct.

17 MR. KEN MCKENZIE: It can take
18 several years before you actually get to the development
19 point.

20 MR. DALE HOHM: That's right.

21 MR. KEN MCKENZIE: So lease acquisition
22 for you is -- would be a reasonable place to draw that
23 line?

24 MR. DALE HOHM: Yes.

25 MR. KEN MCKENZIE: Okay. Good. Thank

1 you very much.

2 MR. DALE HOHM: You're welcome.

3 THE CHAIRPERSON: Thank you, sir. We
4 appreciate your presentation and your contribution this
5 morning.

6 MR. DALE HOHM: Thank you for the
7 opportunity.

8 THE CHAIRPERSON: Have a great day.

9 MR. DALE HOHM: Thank you.

10 THE CHAIRPERSON: I'm very pleased to
11 acknowledge that we have an Albertan, Mr. Lewis, to make
12 a presentation if you're here, sir?

13 Mr. Lewis, were you here when I was
14 talking about the formality of you'll have five (5)
15 minutes to present and there's a gentleman down there
16 with cards to help you and let you know as you wind down?

17 MR. GARY LEWIS: Yeah, I -- I know that
18 the -- I only have five (5) minutes so --

19 THE CHAIRPERSON: Okay, great. Welcome,
20 sir.

21

22 PRESENTATION BY MR. GARY LEWIS:

23 MR. GARY LEWIS: Okay. Considering the
24 fact I only have five (5) minutes I'll briefly introduce
25 myself.

1 My name is Gary Lewis. I work as a
2 mechanical designer as a contractor at the Aurora site.
3 I'd also like to mention here I'm a member of an
4 environmental group called Environmentalists For Nuclear
5 Energy and although nuclear energy has a little bit to do
6 with royalties or has repercussions I'd like to -- to
7 mention in brief at least my ideas on this.

8 First of all, I have to tell you I'm a
9 little bit -- quite rusty on this whole royalty thing so
10 it's -- it's -- it's new to me.

11 First of all, I'd like to mention that --

12 MR. SAM SPANGLET: Can you raise your
13 voice a little bit? Raise your voice a little bit, get
14 closer to the mic? Sorry about that.

15 MR. GARY LEWIS: Okay. First of all I'd
16 like to mention that -- I'd like to point out that the
17 real roy -- real value to Albertans here is in terms of
18 oil sands development is in the bitumen. It's in the
19 bitumen plus the -- all of the value-added things that
20 you can actually add to the bitumen.

21 I would recommend an interesting idea of -
22 - that all the royalties would -- would apply to bitumen
23 and to -- and to natural gas. For a royalty to be
24 applied to the upgraded oil for example it -- it would
25 result in putting a deterrence on adding value added for

1 -- for Albertans; that is a lot of their upgraders would
2 be built in Alberta and especially when -- when there's -
3 - there would be no royalty applied to the refined oil.

4 If all of the royalties applied to the
5 bitumen then that would promote conservation of the
6 bitumen itself and how it's -- how it's developed.

7 I'm a little bit concerned about a
8 particular process that you've probably heard about and
9 that's referred to as the -- the TIE method. It's
10 produced by a company called Petrobank. The TIE method
11 stands for toe-to-heel air injection in which case the
12 bitumen itself was set on fire underground and the -- the
13 air or the oxygen is -- drives the -- drives the wall of
14 flames so to speak underground to heat the bitumen and it
15 goes from the -- goes from that site into a -- something
16 -- act something like steam-assisted gravity drainage and
17 instead of injecting steam you actually burn the bitumen
18 itself.

19 I feel that if the -- if a company like
20 that would -- would pay a royalty on the bitumen itself
21 it's extremely difficult for them to actually calculate
22 how much bitumen is actually destroyed in this process.
23 I feel that a process like that should be -- should be
24 limited because it -- it basically produces -- it
25 destroys the -- a possible future resource.

1 One (1) of the reasons why a process like
2 that is quite popular is because it doesn't use any
3 natural gas which is great and -- and two (2) hopefully
4 they've got their fingers crossed here that all of this
5 carbon dioxide that's produced stays underground. So,
6 but it -- it -- and it also produces oil and gives them a
7 profit.

8 So if, in the future, I would recommend
9 that this process be -- be limited. Another aspect of --
10 of royalties is considering that the real resource is in
11 the bitumen itself. What this would do is it would --
12 and if there's no royalty applied to the oil, the actual
13 end product, the oil itself, then this would promote
14 companies to -- to extract as much oil as possible from
15 the bitumen.

16 In the case that I -- I -- I said with
17 Petrobank, they really don't care about how much bitumen
18 that they destroy in the method of producing a barrel of
19 oil. And so if -- if the royalties is applied to the
20 bitumen itself, then that means it -- you want to get as
21 much value-added value out of the bitumen itself rather
22 than shipping it to the States as I'm sure you've
23 probably -- people have worries about.

24 Also, too, is the royalty on natural gas;
25 there's basically two (2) different prices. There's the

1 wellhead price, as you know, and the market value price.
2 If the price of -- the wellhead price, I believe, should
3 be increased to a point where it's close to its market
4 value. And this would necessitate or -- excuse me --
5 okay, I'll just wind up here and say -- and say that it -
6 - it's important that we develop a new energy source in
7 order to save the companies from paying the wellhead
8 price and closer -- closer to the -- and conserve natural
9 gas.

10 And, of course, one (1) of the best ways
11 to do that is through nuclear -- nuclear energy in order
12 to conserve the natural gas. Thanks.

13 THE CHAIRPERSON: Thanks, Mr. Lewis. I
14 appreciate you coming forward this morning. If you'll
15 allow us a few questions?

16 MR. GARY LEWIS: Mm-hm.

17 THE CHAIRPERSON: Evan...?

18

19 QUESTIONS BY BOARD:

20 MR. EVAN CHRAPKO: Thanks for the
21 presentation, sir. Just to clarify, you're saying no
22 royalties, ever, if the upgrading is done here. Zero --
23 0 percent?

24 MR. GARY LEWIS: Yeah. Yeah, that's
25 right. I -- I think -- I think that if the real resource

1 is in the bitumen itself, of course, the oil companies
2 would love that. They wouldn't need to pay royalties on
3 -- on the upgraded oil.

4 But that would just merely produce a
5 greater incentive for -- for them to add as much value-
6 added -- more upgrading in -- in Alberta than -- than
7 having the -- the bitumen go down the pipeline along with
8 all the jobs that would no doubt go with it. And -- and
9 the -- so I know that this would -- it would -- it would
10 be difficult.

11 There's an environmental reason behind
12 this as well because the more extraction you get from the
13 bitumen, for example, that goes into the oil, the less
14 bitumen ends up in the tailing pond. So if, of course,
15 the price of oil is so high now that the oil companies
16 would want to get as much greater extraction as they --
17 as they can.

18 So -- because if they don't pay any
19 royalties on the refined oil, then that gives them even
20 greater -- gives them even greater incentive to get at
21 the bitumen or process as much bitumen as -- as possible.
22 And the more bitumen processed, the more money ends up in
23 the royalty regime would -- would -- they would get more
24 money from the bitumen, so to speak.

25 Again, it's -- to use the example of the

1 TIE method, it's energy efficient because you don't have
2 to burn any natural gas. But the -- the -- to use an
3 example, it's something like a company that is told okay,
4 you can build a furniture manufacture in the middle of
5 the forest.

6 But if they don't have to pay for the
7 forest itself, then the forest, it quickly depletes to
8 where, let's say, 90 percent of the wood that's in the
9 forest ends up as -- as an energy source in order to
10 produce the furniture. Only 10 percent of the -- of the
11 wood ends up in the furniture, but somebody -- you would
12 end up getting almost like a -- a -- that would be an
13 example where the resource would be depleted greatly and
14 if you don't get any royalties from the trees, then the--

15 MR. EVAN CHRAPKO: Your -- your proposal
16 is saying you're not getting any royalties from the
17 furniture either.

18 MR. GARY LEWIS: Yeah, that's right.
19 Yeah.

20 MR. EVAN CHRAPKO: So --

21 MR. GARY LEWIS: Yeah, that's right. You
22 would have to -- you would have to -- if -- if -- if, in
23 this hypothetical case, if the -- if the furniture
24 manufacturer pays for the trees, you know, in other
25 words, that's the real resource, then the -- the royalty

1 is -- is -- is supplied at -- at the -- at the front end
2 so to speak, or at the first domino that has to fall
3 before all of this other stuff happens. So --

4 MR. EVAN CHRAPKO: Not according to your
5 proposal though. You were saying zero on the bitumen.

6 MR. GARY LEWIS: No, no, I'm saying zero
7 royalty applied to the -- the refined oil.

8 MR. EVAN CHRAPKO: Sorry, zero on the
9 refined oil then.

10 MR. GARY LEWIS: Yes, that's right, but
11 that would promote greater utilization of the bitumen if
12 -- and -- and that's where the royalties would come from.

13 MR. EVAN CHRAPKO: Just as a side
14 comment, as a mechanical design contractor, based on your
15 presentation, it doesn't appear you're going to be
16 pursuing any work from Petrobank, is that right -- fair
17 to say?

18 MR. GARY LEWIS: This -- no, I guess -- I
19 suppose not. Of course, the same thing is -- I've made
20 some vicious attacks against coal, especially with my
21 association with Environmentalists for Nuclear Energy.
22 One (1) of the reasons why I've joined that organization
23 because of all of the environmental reasons against --
24 against coal. And of course, there's a world of -- if
25 one could read the book The Environmental Cause for

1 Nuclear Energy, so, but that's a whole other topic.

2 I also made a presentation in front of the
3 Oil Sands Consultation Board. I have a little paper
4 there.

5 THE CHAIRPERSON: We're going to just
6 jump over to -- I've got to get some questions in before
7 we let you out.

8 Ken...?

9 MR. KEN MCKENZIE: Really, no questions,
10 except for just to point out to you that currently under
11 the existing system, the royalty is applied to the
12 bitumen price, not the SCO price, with a couple of
13 exceptions being Syncor and Syncrude --

14 MR. GARY LEWIS: Mm-hm. Yeah.

15 MR. KEN MCKENZIE: -- that will be
16 shifting, I presume to a bit pricing approach. So --

17 MR. GARY LEWIS: Yeah.

18 MR. KEN MCKENZIE: -- the existing system
19 actually does what you're saying.

20 MR. GARY LEWIS: Yeah. Okay. I just --

21 MR. KEN MCKENZIE: Yeah.

22 MR. GARY LEWIS: -- I forgot to mention
23 that and I wasn't sure about the details of it --

24 MR. KEN MCKENZIE: Yeah.

25 MR. GARY LEWIS: -- but -- but if that's

1 the existing system, then I would --

2 MR. KEN MCKENZIE: Yeah.

3 MR. GARY LEWIS: -- certainly appreciate
4 considering reinforcing that.

5 MR. KEN MCKENZIE: Okay.

6 MR. GARY LEWIS: And, of course, then
7 there is the issue of natural gas and making so much
8 wealth and what is it based upon? Is it based upon the
9 wellhead price or the --

10 MR. KEN MCKENZIE: Yeah.

11 MR. GARY LEWIS: -- value-added price.

12 And so --

13 THE CHAIRPERSON: Judith...?

14 MS. JUDITH DWARKIN: Thank you.

15 THE CHAIRPERSON: Sorry --

16 MR. KEN MCKENZIE: No, I am finished.

17 MS. JUDITH DWARKIN: Okay. Good morning.

18 I want to pursue the Petrobank technology a little bit
19 more. You comment that bitumen is destroyed in the sense
20 that the bitumen is burned to generate the energy to --

21 MR. GARY LEWIS: Mm-hm. Mm-hm.

22 MS. JUDITH DWARKIN: -- essentially, it
23 is upgrading in Alberta. It is really in Alberta,
24 underground in Alberta, upgrading --

25 MR. GARY LEWIS: Mm-hm. Mm-hm.

1 MS. JUDITH DWARKIN: -- in terms of the
2 value-added aspect of your interest, so --

3 MR. GARY LEWIS: Mm-hm.

4 MS. JUDITH DWARKIN: -- can you elaborate
5 a bit more on -- on that? And the other aspect of the --
6 the underground upgrading, I would think, from an
7 environmental and natural gas conservation, those are
8 good things about it.

9 MR. GARY LEWIS: Mm-hm, That's --that's
10 right.

11 MS. JUDITH DWARKIN: Is it your main
12 concern that there's this sort of murkiness about how
13 much bitumen is consumed to generate the energy to
14 produce the synthetic and -- and the royalty system needs
15 to track those values
16 closely?

17 MR. GARY LEWIS: Yeah, I would say that
18 in the Petrobank situation I think, in some ways, they
19 are more or less painted -- they -- they were in fact
20 sort of more or less painted in a corner, so to speak.
21 They -- they realized the -- the high cost of natural gas
22 now, and they -- they need an energy source in order to -
23 - to run their operation.

24 But, in doing so, they -- they, hopefully,
25 not destroy the product so much as to interfere with --

1 with actually making the product or -- it's like burning
2 the product in order to make the product. It has -- it
3 has that advantage, but it has the big disadvantage in
4 that -- that they're destroying the bitumen.

5 Even in steam assisted gravity drainage
6 method, for example, the steam goes down, it heats up the
7 bitumen and goes into the bottom pipe. But the -- the
8 bitumen, itself, could still be -- it could still be
9 there for future generations; that is, have the bitumen
10 that doesn't go into the -- the bottom pipe. It could
11 still be hypothetically accessed in future generations,
12 but in the Petrobank TIE method, the -- the bitumen is
13 actually destroyed itself.

14 But it -- I think this Board should be
15 cognizant of -- of that and that they're -- even if they
16 are paying the royalty on it, you're paying the royalty
17 not to produce the value-added product, but they're just
18 using it just as a means of an energy source.

19 I'm saying -- I'm suggesting that we
20 should put more -- more eggs in the basket of steam
21 assisted gravity drainage system in order to conserve the
22 bitumen.

23 MS. JUDITH DWARKIN: Thank you.

24 THE CHAIRPERSON: Sam...?

25 MR. SAM SPANGLER: No, I'm clear.

1 Thanks.

2 THE CHAIRPERSON: Andre...?

3 MR. ANDRE PLOURDE: Thanks. Thank you.

4 Thanks for your presentation. Just to follow up on -- on
5 the question -- on Judith's question.

6 How about a system where users of a
7 technology like TIE would have to pay royalties on the
8 bitumen consumed as part of the process?

9 MR. GARY LEWIS: Yeah.

10 MR. ANDRE PLOURDE: What's your reaction
11 to that?

12 MR. GARY LEWIS: Well, yeah, I think
13 that's -- yeah, any -- any royalty that's -- that's --
14 that's as -- as a result of the consumption is good. I
15 suppose if there -- you see, it's almost like a zero sum
16 game. The Petrobank, for example, would -- would pay
17 virtually nothing for, or an awful lot less, for natural
18 gas because they're -- they're getting the energy source
19 from the bitumen itself.

20 And then they don't have to worry about
21 building scrubbers or all of that, SO₂, Noxin, Soxin and
22 all of the carbon dioxide remains in the ground. So
23 that's the benefit. But I think they -- they would have
24 to pay a very large royalty on the bitumen -- bitumen, so
25 it's whether the bitumen goes up the pipe to be used for

1 oil processing, or the bitumen that's destroyed
2 underground or burned up so to speak.

3 MR. ANDRE PLOURDE: Okay.

4 MR. GARY LEWIS: So long as they pay for
5 it, I think it's all right. But that -- that could be a
6 substantial affect on their bottom line. But Albertans
7 should -- should expect to be paid a royalty of the
8 bitumen irregardless of where -- where it goes. If it
9 goes up in smoke.

10 So in a -- in a indirect way, a lot of the
11 surface lines like Suncor and Syncrude to something
12 similar to that because they -- they're burning --
13 burning the coke in their cokers, so, in that way,
14 they're burning the bitumen in a -- in a indirect way.

15 But at least the -- the rate of extraction
16 is a whole lot better.

17 MR. ANDRE PLOURDE: Yeah, thank you.

18 THE CHAIRPERSON: Thanks very much, Mr.
19 Lewis, and we really appreciate you taking the initiative
20 and coming, making your presentation --

21 MR. GARY LEWIS: Okay. Thanks then.

22 MR. CHAIRPERSON: -- have a great day.

23 Ladies and gentlemen, that concludes our
24 presentations for this morning. We have no registered
25 presenters for this afternoon, but the panel will make

1 itself available for 2:00 in case we have some walk-ups.

2 Tomorrow we have eight (8) presenters. We
3 will be hearing from: Suncor, Athabaska Rig, IMD
4 Projects and, hopefully, Petrobank Energy in the morning.
5 In the afternoon, we'll hear from the Canadian Oils Sands
6 Trusts, Syncrude, Regional Municipality of Wood Buffalo
7 and the Fort McKay IRC.

8 So we hope to see you all again tomorrow
9 and thank you very much for attending this morning.

10

11 --- Upon recessing at 11:21 a.m.

12 --- Upon resuming at 2:00 p.m.

13

14 (NO PRESENTATIONS)

15

16 --- Upon recessing at 2:15 p.m

17

18 Certified Correct,

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22 Sean Coleman

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