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Oil Gas Salt Resources Trust 2006 - Annual Report

June 30, 2007

The Honourable David Ramsay
Minister of Natural Resources
90 Wellesley Street West
6th Floor, Whitney Block, Room 6630
Toronto, ON M7A 1W3

Dear Mr. Ramsay,

It is my pleasure to submit the 2006 Annual Report of the Ontario Oil, Gas & Salt Resources Corporation.

Once again the recently past fiscal year continued to be an extremely productive year for the Trust. It continued to invest in converting the data that exists in the Oil, Gas & Salt Resources Library to a more modern and accessible digital format. In addition to continuing to operate the Library as a resource centre for the study of Ontario's geological subsurface, our new and expanding portfolio of digital products is helping to attract investment and interest in Ontario's petroleum and natural gas resources.

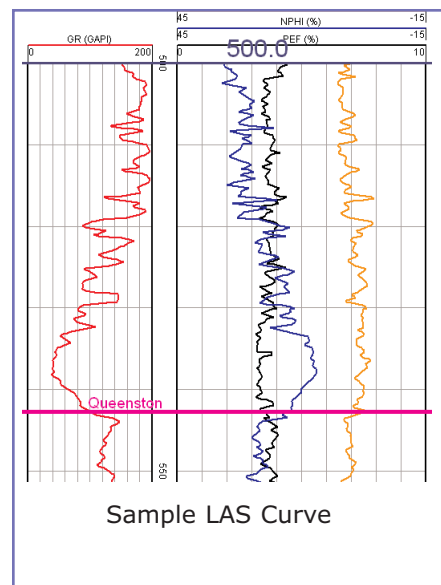
With the completion of the financial and research partnership with the Targeted Geoscience Initiative(TGI) of Natural Resources Canada in fiscal 2006, the OGSR Library has been working, on a contract basis with the MNR and the Ontario Geological Survey (OGS). These partnerships have allowed the OGSR Library to further its digitization program which will include over 1000 well logs being scanned and digitized. This program will allow the OGS to develop further mapping of Ontario's geological subsurface. The MNR partnership will deliver to the MNR a more complete well digitization throughout the Niagara Region. Final deliverables for both projects are scheduled for completion in August of 2007.

The Trust website continues to evolve as a tremendous resource for cost effectively distributing data and information about Ontario, essentially creating a virtual Library for users to access when and where they want. Furthermore, the staff ensure that requests from our Ontario constituents as well as those from outside of Ontario are promptly fulfilled hoping to do our part to ensure further investment in Ontario's Oil, Gas and Salt Resources.

Or next fiscal will see the development of more digital data products, enhanced outreach to industry and private well owners and a continuously broader geographical coverage of Ontario.

Sincerely,

Joe Van Overberghe
Managing Director
Ontario Oil, Gas & Salt Resources Corporation



Trust Mission and Objectives

The funding of information management relating to oil, gas and salt resources;

The funding of research, surveys and laboratory facilities and operations relating to:

- oil or gas exploration, drilling or production;
- storage of oil, gas and other hydrocarbons in geological formations;
- disposal of oil field fluids in geological formations; and,
- solution mining of salt.

Such other matters as may be specified by the Minister.

The Oil, Gas and Salt Resources Trust is a non-profit organization, established by the Oil, Gas and Salt Resources Act, which funds information management relating to oil, gas and salt resources; and also funds research, surveys, and laboratory facilities and operations relating to oil or gas exploration, drilling or production, the storage of oil, gas and other hydrocarbons in geological formations, and the disposal of oil field fluid in geological formations.

The Trust is funded by, and provides services to, companies and individuals involved in oil and gas exploration, drilling or production; the storage of hydrocarbons in geological formations, the disposal of oil field fluid in geological formations, and solution mining. Services are also available to the general public, universities and other clients on a cost recovery basis.

The Trust manages the Oil, Gas and Salt Resources Library as a resource centre for the study of the subsurface geology and oil, gas, salt, and subsurface storage and fluid disposal resources of all the potential oil, gas and salt-bearing rocks of Ontario.

The Oil, Gas and Salt Resources Trust specializes in the collection, generation, and dissemination of information and knowledge about the subsurface geology and oil, gas, salt and underground hydrocarbon storage resources of Ontario. It provides its clients in these resource industries with the data they need to conduct their business in the most orderly, safe and efficient way possible, and provides public access to this data at reasonable cost.

The Trust's continuing mandate is to maintain and improve access to existing data, and to develop programs to improve client access to information and to generate new revenue.



Review - 2006

Oil and Gas Industry Activity

Drilling activity in Ontario showed an increase in 2006 over 2005. It was not enough to offset the overall decline in production. Oil prices were strong throughout the year due to supply concerns related to the world geopolitical and weather issues and low inventory levels of refined petroleum products in the United States. Natural gas prices dropped significantly from the record highs of 2005 due to low demand on inventories throughout the summer and winter seasons. Record highs were seen in 2005 partly because of severe weather throughout the American Southwest and Texas regions.

Despite high commodity prices preliminary figures indicate production of oil and natural gas declined slightly in 2006. Oil production in 2006 totalled 124,500 cubic metres compared to 137,000 cubic metres the previous year. This is due primarily to decreased exploration effort in the Ordovician oil play. Preliminary figures for natural gas indicate production declined to 340 million cubic metres compared to 346 million cubic metres in 2005, due primarily to lower production from wells on Lake Erie. Estimated value of production was \$57.1 million for oil and \$97 million for natural gas, compared to \$55.0 million and \$135.0 million for oil and gas respectively the previous year. The increase in oil value was due to higher world prices. Natural gas prices were down as part of an overall North American trend.

Hydrocarbon storage capacity in underground storage facilities in Ontario was unchanged from the previous year. Natural gas storage capacity totalled 6,857 million cubic metres with a product value, when filled to capacity, of approximately \$2 billion. Storage capacity of liquid petroleum products in underground storage caverns totalled 3.5 million cubic metres with a product value of approximately \$1.2 billion depending on the world price for crude oil.

Digital Well Data

Well location and data verification continued aggressively to update the Ministry of Natural Resources' (MNR) database with digitized well information. Two temporary employees spent approximately 3500 man-hours inputting data on a county-by-county basis. The results of this effort produced completely updated and verified digital data for much of Southern Ontario. Value-added data, including geological formation tops, oil, gas and water interval depths, and intervals with geophysical logs can be purchased from the Library.

Digital Maps

At year-end, the OGSR Library continued to be capable of plotting digital copies of maps that were previously only available as reproductions of old maps from MNR archives. The Library regularly fulfills requests plotting Base Maps, Well Location Maps, Spacing Orders, Counties and Township Maps, and Pool and Pipeline Maps.

Sample Processing

A summer student was hired in 2006 to concentrate on reducing the number of backlogged sample washings. Drill cutting samples for wells were washed, vialled and permanently stored in the OGSR Library warehouse.

Marketing and Website

Revisions to the OGSR Library website were ongoing during 2006: regular features included the posting of free digital well data, bit map images of maps available in the OGSR Library, weekly new licence reports, monthly activity reports, and additional reference material. Users of the website also have the ability to make specific requests of the OGSR via the website.

Targeted Geoscience Initiative - Completed

The Trust recently completed its financial partnership within the TGI project. The partnership used federal funding to develop a continued enhancement of the provinces understanding of our subsurface Geology and energy storage. Specific outcomes of the project will consist of updated estimates of discovered and undiscovered oil and gas resources for the Ordovician hydrocarbon play, and a series of subsurface geological cross-sections of Southern Ontario. The TGI partnership "utilized" input and analysis from local geological consultants and analysis from the Ontario Geological Survey. The TGI project will also allow a continued update in both the hardware, software and tools to improve the analysis of geological and geophysical data and reports collected by the MNR from the Ontario Oil, Gas and Gas Storage industries.

The hope of the OGSR Trust is that such initiatives continue to be available in the future to enhance the trusts targeted research budgets. The final deliverables will be available in the second half of 2006.

2006 By The Numbers

Total number of licences to drill and operate new wells:
145

Horizontal: 4
Vertical: 141

Licensed in 2006 and completed in 2006 **75**

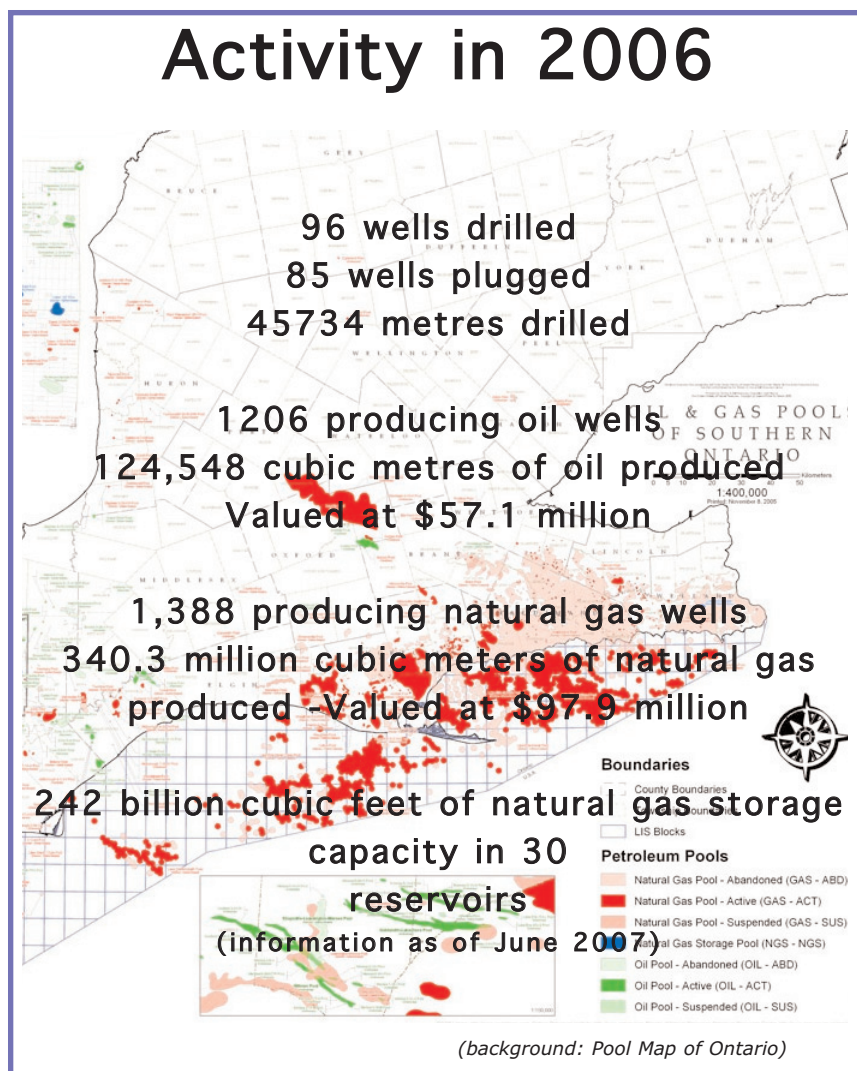
Oil and Gas Wells: **2**
Oil Wells: **5**
Natural Gas Wells: **58**
Private Gas Wells: **10**

Total wells completed in 2006 (but not necessarily licensed in 2006): **96**

Vertical: **91**
Horizontal: **5**

Wells Plugged in 2006: **85**

Total drilled: 45733.87 m
Horizontal: 4984.8 m
Vertical: 40749.07 m



Future Directions

While the library continues to upgrade in service and facilities at the Oil, Gas & Salt Resources Library, the following projects and initiatives will be undertaken in 2007:

Digital Database

The Trust will continue working in partnership with the MNR to build, maintain and market a digital database of geological and engineering information on wells drilled in Ontario through the MNR's Ontario Petroleum Data System (OPDS). By the end of 2007, data and location verification for Southern Ontario's counties will be completed, as well as all of Lake Erie. To facilitate this completion the OGSR Library has taken on three summer staff in addition to our fulltime staff to ensure completion. These students are part of a cooperative work program at Fanshawe College.

The Trust continues its work with the Ontario Geological Survey and will be completing the first part of hopefully an ongoing project of scanning and digitizing well logs. These will be available to our membership after being forwarded to the OGS. As with all projects, it is hoped that the availability of this product will spur continued research into Ontario's geology and the petroleum industry.

In addition to verifying data and publishing up-to-date maps, the Library has begun work on allowing direct access to the data in the Library by users, leading eventually to accessing the data and the digital base maps over the Internet or on remote computers. Access to digital data will help to encourage the sustainable development of Ontario's resources by existing industry participants, as well as attracting new investment to the province.



Industry Tour- June 2006 Attendees from left - Lyle Reiber-Talisman Energy Inc., Bob Craig-Enbridge Inc., Rob Taylor-MNR, Kevin Wilson-MNR, Cam Baker-Ontario Geological Survey, Brian Messerschmidt-MNR, Joe Van Overberghe-OPI/OGSRL and Andrew Hewitt-MNR. Taking the picture Kerry O'Shea-Dillon Consulting Ltd.

Future Research Initiatives

Future research initiatives of the OGSR Trust will continue its focus on emerging and environmental issues in Ontario and Canada. There has been recent media recognition of potential global supply problems regarding oil and gas. In particular the declining gas delivery capacity from Western Canada. In this regard, the OGSR Trust shall fund projects that further enhance Ontario's energy self-sufficiency, in particular, the contribution of natural gas as an energy alternative to coal. Other areas of future research may include calcium brine production, compressed air energy storage, carbon sequestration and cavern storage of natural gas.

The Library will continue to offer its services to Conservation Authorities with the recent passage of Bill 190 and its upcoming regulations. Specifically the OGSRL will offer its services to the local committees through the Conservation Authorities allowing them to have the clearest data with respect to the Oil, Gas, Salt Solution and Natural Gas and Petroleum product storage. The Library will also work with industry, targeting any petroleum downstream organizations that wish to develop their industry in Ontario.

150th Anniversary of Commercial Oil in North America - 2008

With such a unique anniversary coming to Ontario, specifically to Oil Springs the OGSRL, will be working with the Celebrations throughout late 2007 through 2008. It will be a time to recognize the petroleum industry that has grown from Ontario and provided so much to Ontario's and Canada's economies.

Notes about financial issues:

Please read all financial notes. The OGSR Corp and Trust moved to accrual accounting in 2005 and thus did show a decline in membership revenue. As we moved to fiscal 2006, this has evolved into a more true reflection of membership revenue.

Also note that at the time of printing, the Lease on the facility currently occupied has not yet been renewed. We are anticipating successful negotiations with our landlord.

Questions Related to the OGSRL:

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Oil, Gas and Salt Resources Trust
Financial Statements
December 31, 2006

Grant Thornton 

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Auditors' Report

To the Members of
Oil, Gas and Salt Resources Trust

We have audited the balance sheet of the **Oil, Gas and Salt Resources Trust** as at December 31, 2006 and the statements of earnings, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Trustee. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the organization, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Oil, Gas and Salt Resources Trust as at December 31, 2006 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

London, Ontario
February 20, 2007

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Oil, Gas and Salt Resources Trust

Statement of Earnings

Years Ended December 31

2006

2005

Revenue

Well licence fees	\$ 121,916	\$ 140,876
Sample processing fees	32,443	33,374
Ministry of Natural Resources – Niagara well program	10,065	-
Ontario Geological Survey	6,712	-
Labour and clerical	9,762	12,813
Memberships	29,545	13,804
Lab user fees	1,354	736
Publications and data	15,986	22,590
Geoscience	-	1,765
Interest and foreign exchange	5,446	2,860
	<u>233,229</u>	<u>228,818</u>

Expenses

Wages and employee benefits	71,609	67,903
Contract and co-op wages	19,987	44,657
Processing supplies	9,424	6,065
Waste removal	399	669
Sundry	13,258	14,078
Trust management fee	7,500	7,500
Trust services fee	7,500	7,500
Professional fees	5,000	3,100
Office expenses	4,657	4,803
Postage and telephone	3,868	2,760
Insurance	4,302	2,496
Travel	299	63
Rent	57,073	62,390
Bad debts (recovery)	-	(727)
Amortization	2,541	2,608
	<u>207,417</u>	<u>225,865</u>

Earnings before allocation

25,812

2,953

Allocation to the Province of Ontario

(25,812)

(2,953)

Net earnings

\$ -

\$ -

See accompanying notes to financial statements.

Oil, Gas and Salt Resources Trust

Statement of Retained Earnings

Years Ended December 31

	2006	2005
Retained earnings, beginning of year	\$ -	\$ -
Net earnings (Page 2)	-	-
Retained earnings, end of year	\$ -	\$ -

See accompanying notes to financial statements.

Oil, Gas and Salt Resources Trust

Balance Sheet

As At December 31

2006

2005

Assets

Current Assets

Cash	\$	19,980	\$	6,939
Temporary investments		133,934		111,360
Accounts receivable		146,991		153,521
Inventory of supplies		5,232		3,473
Prepaid expenses		<u>764</u>		<u>6,445</u>
		306,901		281,738

Capital Assets (Note 3)

9,024	9,848
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<u>\$ 315,925</u>	<u>\$ 291,586</u>
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Commitments (Note 4)

On behalf of the Trustee

See accompanying notes to financial statements.

Oil, Gas and Salt Resources Trust

Balance Sheet

As At December 31

2006

2005

Liabilities

Current Liabilities

Accounts payable and accrued liabilities	\$ 12,259	\$ 13,687
Unearned revenue	8,651	8,696
Payable to the Province of Ontario	<u>295,015</u>	<u>269,203</u>
Total liabilities	<u>315,925</u>	291,586

Equity

Retained Earnings (Page 3)

-	-
\$ <u>315,925</u>	\$ <u>291,586</u>

See accompanying notes to financial statements.

Oil, Gas and Salt Resources Trust

Statement of Cash Flows

Years Ended December 31

2006

2005

Increase (decrease) in cash

Operating

Cash received from customers	\$ 234,268	\$ 326,699
Cash payments to suppliers for goods and services	(111,732)	(157,798)
Cash payments to employees	(90,650)	(112,560)
Interest received	<u>5,446</u>	<u>2,860</u>
	37,332	59,201

Investing

Purchase of capital assets	(1,717)	-
Purchase of temporary investments	(226,388)	(292,983)
Proceeds on the redemption of term deposits	<u>203,814</u>	<u>206,672</u>
	(24,291)	86,311

Change in cash

13,041 (27,110)

Cash, beginning of year 6,939 34,049

Cash, end of year \$ 19,980 \$ 6,939

See accompanying notes to financial statements.

Oil, Gas and Salt Resources Trust

Notes to the Financial Statements

December 31, 2006

1. Summary of significant accounting policies

(a) Organization

Pursuant to the Oil, Gas and Salt Resources Act, R.S.O. 1990, the Trust was formed by the Ontario Ministry of Natural Resources. A trust agreement, dated February 16, 1998, was signed with the original trustee, the Ontario Oil, Gas and Salt Resources Corporation. The purpose of the Trust is to provide for the funding of research, surveys and laboratory facilities relating to the oil and gas industry. Pursuant to the trust agreement, the net assets of the Trust accrue to the benefit of the Province of Ontario. The monetary value of this entitlement is reflected within current liabilities as "Payable to the Province of Ontario."

(b) Revenue recognition

Fees and other revenue received in advance are deferred and recognized as income at the time the related expenditures are incurred. Members' fees as set by the Board of Directors are recognized as revenue on a fiscal year basis. Investment revenue is recognized within the month in which it is earned.

(c) Cash

Cash includes cash on hand, balances with banks, net of outstanding cheques.

(d) Temporary investments

Temporary investments consist of cashable guaranteed investment certificates with banks, and are carried at the lower of cost and market value. The weighted average interest rate of the guaranteed investment certificates is 3.50%.

(e) Inventories

Inventories are valued at the lower of cost and current replacement value. Cost is determined on an original cost basis.

(f) Amortization

It is the Trust's policy to provide for amortization of capital assets on the following basis:

Furniture and fixtures	20% declining balance
Computer hardware	3 years, straight-line
Computer software	100%

(g) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rate. Expenses are recorded at average rates of exchange. Translation gains and losses are included in earnings.

Oil, Gas and Salt Resources Trust

Notes to the Financial Statements

December 31, 2006

1. Summary of significant accounting policies (continued)

(h) Use of estimates

In preparing the Trust's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

2. Financial instruments

(a) Fair value of financial instruments

The fair values of accounts receivable, accounts payable and accrued liabilities, and amounts payable to the Province of Ontario are assumed to approximate their carrying value, unless otherwise noted.

(b) Financial risk

The Trust is exposed to financial risk with respect to foreign exchange rates and the degree of volatility of these rates. The Trust does not use derivative instruments to reduce its exposure to foreign currency risk.

(c) Credit risk

The Trust is exposed to credit risk with respect to its accounts receivable. However, this is minimized by the Trust's customer base, which covers different consumer and business sectors. The Trust performs initial credit evaluations of its potential customers and limits the amount of credit extended when deemed necessary. The Trust maintains provisions for potential credit losses, and any such losses to date have been within management's expectations.

3. Capital assets			<u>2006</u>	<u>2005</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Furniture and fixtures	\$ 31,557	\$ 24,381	\$ 7,176	\$ 8,969
Computer hardware and software	<u>21,789</u>	<u>19,941</u>	<u>1,848</u>	<u>879</u>
	<u>\$ 53,346</u>	<u>\$ 44,322</u>	<u>\$ 9,024</u>	<u>\$ 9,848</u>

Oil, Gas and Salt Resources Trust

Notes to the Financial Statements

December 31, 2006

4. Commitments

Pursuant to a lease agreement in respect of office equipment, the Trust is contractually obligated to lease payments in the amount of \$288 quarterly as at December 31, 2006. The minimum annual lease payment due to the expiry of this lease, in July 2011 is as follows:

2007	\$	1,152
2008	\$	1,152
2009	\$	1,152
2010	\$	1,152
2011	\$	576

5. Targeted geosciences initiative

In 2003 the Trust entered into a contract with the federal government to provide specific mapping information on the locations of various natural resources within Ontario. Under the terms of this contract all expenses incurred are to be billed back to Natural Resources Canada.

Detail of expenses billed to Federal Government

	<u>2006</u>	<u>2005</u>
Project Start Up		
Capital costs	\$ -	\$ 8,087
Part 1 – Hydrocarbon Resource Evaluation		
Pool maps and summary sheets	-	-
Monthly production data	-	-
Reserves by Pool	-	-
Ordovician and Cambrian Hydrocarbon Potential Report	-	31,577
	-	39,664
Part 2 – Regional Stratigraphic Correlations		
Progress report 1 - Research summary and digitized logs	-	-
Progress report 2 - Drill core and cuttings descriptions and field work	-	-
Progress report 3 - Correlated log cross-sections	-	47,424
	-	47,424
Billings to Federal Government	<u>\$ -</u>	<u>\$ 87,088</u>

Schedule of Fee Recognition

2003	\$	1,765
2004		10,588
2005		2,647
	\$	<u>15,000</u>

Fees are pro-rated monthly over the term of the contract.

Oil, Gas and Salt Resources Trust

Notes to the Financial Statements

December 31, 2006

6. Ministry of Natural Resources – Niagara well program

In 2006, the Trust entered into a contract with the Ministry of Natural Resources for the Province of Ontario to verify, update and edit digital petroleum well records in the Ontario Petroleum Data System. Fees are prorated quarterly over the term of the contract. The total fee is not to exceed \$45,000.
