



Canadian domestic price forecast December 31, 2011

Forecast commentary

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From dream to reality: it is time

As we welcome 2012, a new and exciting year for the Canadian oil and gas energy industry unfolds. The New Year begins with the opening of the Enbridge Northern Gateway Pipeline hearings in front of the National Energy Board. These hearings will polarize the nation, as debate on approval to build an additional crude oil pipeline to Canada's west coast heats up. Interest groups and political policy makers will vie for the opportunity to be heard. This is a Canadian decision which should be made based on the benefits for Canada into the future. It is time we stood up as a nation and take our rightful place as a leader in the world global market.

Canada has long been the resource supplier to the world, in particular to the United States. As Canada is the largest supplier of electricity, crude oil, and natural gas to the US, they need not worry. Canada's abundant resources will continue to flow south as US imports.

Our country has always had the vision to pursue projects that facilitate getting our resources to market. Two such dreams are the National Rail System from Thunder Bay to Vancouver and using the St. Lawrence Seaway for transportation on the east coast. Table 1 displays the magnitude of Canadian exports for 2010 utilizing

Table 1
Canada's exports

	2010
	Billion \$
Exports	404.8
Agricultural and fishing products	36.9
Energy products	90.9
Forestry products	21.9
Industrial goods and materials	96.5
Machinery and equipment	76.1
Automotive products	56.8
Other consumer goods	16.4
Special transactions trade	4.0
Unallocated adjustments	5.4

Data source: Statistics Canada

does it increase Canada's trade balance, but it reduces the dominance on the US market from the 73% to 65%. Most of all it removes Canada from dependency on US policies, which impact Canada's energy future; for example the delay in the TransCanada Keystone XL Pipeline to the US Gulf Coast Refinery Complex. Expanding to the Asian market will allow Canadian energy to compete on the world oil price market rather than being restricted by the US market. For example in October 2011, the differential for Brent, UK world trading prices compared to the Cushing, Oklahoma West Texas Intermediate (WTI) was over \$23.00/bbl. This could add a further \$8.0 billion (using only half of the variance due to lower quality crude being exported) assuming the added 2 MMbbl/d of new export capacity is available to Asian markets

As I have stated in the past, the United States is a flat, if not, declining market for Canada's oil and gas exports. The Asian market, which demonstrates continued growth, is the only viable economic alternative. We have an opportunity; we have the resources. Now we require the leadership and foresight to make this dream a reality. The potential to put Canada on the global energy stage as a player as soon as possible is exciting.

“Sight is precious, but vision is better.”

- Jim Stoval

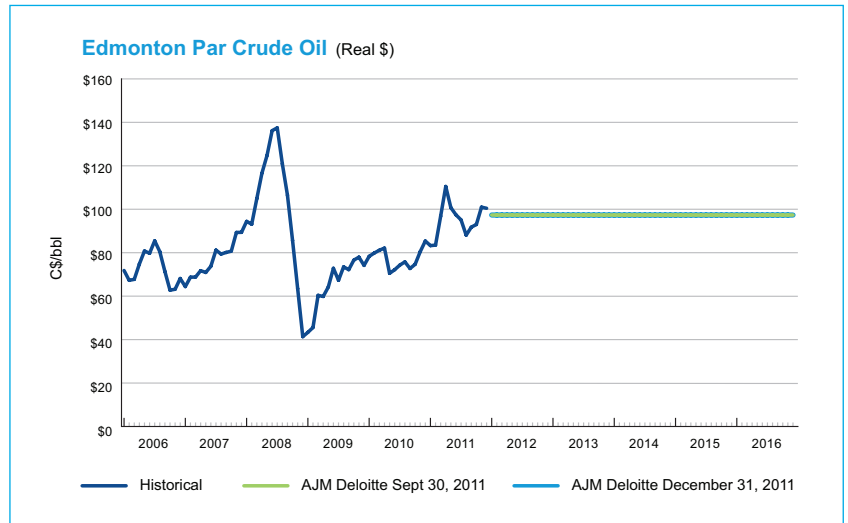
Canada's aforementioned transportation network, roads, and pipeline systems.

Of the \$404.8 billion, \$296.7 billion (73.3%) went to the United States. Of the \$90.9 billion from Energy Products, crude petroleum accounted for \$50.0 billion of the total. In 2010, Canada exported an average of just over 2 MMbbl/d into the United States. Assuming the Northern Gateway Pipeline adds 1 MMbbl/d and the expansion of Kinder Morgan's Trans Mountain Pipeline adds another 1 MMbbl/d, the gained access to Asian markets potentially could add another \$50.0 billion in exports. Not only

Crude oil price and market demand forecast

Forecast considerations

- Adjustments for oil consider the most recent pipeline tariffs and exchange rates to arrive at a Canadian Edmonton par equivalent price.
- Edmonton Par price is used as the basis to arrive at the remaining crude reference points. Offsets are based on five-year historical statistics with more recent data weighted more heavily in the determination.
- Adjustments on each individual property are made to account for transportation and crude quality from the Edmonton posted price or the reference price used for the specific property.

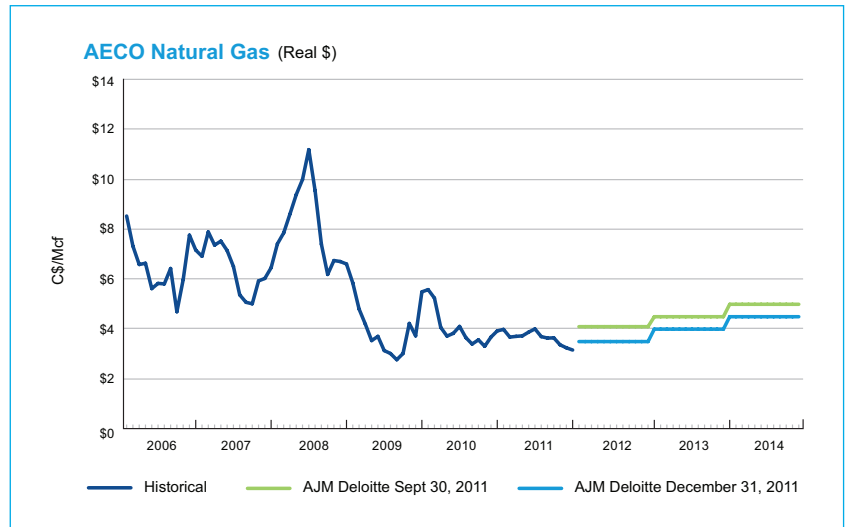


Year	WTI Cushing, OK (40 Deg. API)	WTI Cushing, OK (40 Deg. API)	Canadian Par Edmonton, AB (40 Deg. API)	Canadian Par Edmonton, AB (40 Deg. API)	SE SK Med. Oil Cromer, MB (29 Deg. API)	Bow River Oil Hardisty, AB (25 Deg. API)	Heavy Oil Hardisty, AB (12 Deg. API)	Cost inflation	CAD to USD exchange
	US\$/bbl	US\$/bbl	C\$/bbl	C\$/bbl	C\$/bbl	C\$/bbl	C\$/bbl		
	Real	Current	Real	Current	Current	Current	Current	Rate	Rate
Historical									
2008	\$102.32	\$99.58	\$105.66	\$102.83	\$93.26	\$83.97	\$73.17	0.0238	0.943
2009	\$61.98	\$61.78	\$66.41	\$66.21	\$62.77	\$59.90	\$54.49	0.0031	0.880
2010	\$79.42	\$79.42	\$77.79	\$77.79	\$73.48	\$68.16	\$60.59	0.0176	0.971
2011									
12 Months H	\$94.99	\$94.99	\$95.77	\$95.77	\$88.29	\$78.60	\$69.75	0.0282	1.013
0 Months F	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	0.0000	1.000
Avg.	\$94.99	\$94.99	\$95.77	\$95.77	\$88.29	\$78.60	\$69.75	n/a	1.013
Forecast									
2012	\$100.00	\$100.00	\$98.00	\$98.00	\$91.00	\$81.20	\$76.40	0.0000	1.000
2013	\$100.00	\$102.00	\$98.00	\$100.00	\$92.30	\$81.10	\$75.70	0.0200	1.000
2014	\$100.00	\$104.05	\$98.00	\$102.00	\$93.00	\$80.00	\$74.00	0.0200	1.000
2015	\$100.00	\$106.10	\$98.00	\$104.00	\$94.25	\$82.00	\$76.00	0.0200	1.000
2016	\$100.00	\$108.25	\$98.00	\$106.10	\$95.60	\$84.10	\$78.10	0.0200	1.000
2017	\$100.00	\$110.40	\$98.00	\$108.20	\$96.95	\$86.20	\$80.20	0.0200	1.000
2018	\$100.00	\$112.60	\$98.00	\$110.35	\$98.35	\$88.35	\$82.35	0.0200	1.000
2019	\$100.00	\$114.85	\$98.00	\$112.55	\$99.05	\$90.55	\$84.55	0.0200	1.000
2020	\$100.00	\$117.15	\$98.00	\$114.80	\$99.80	\$92.80	\$86.80	0.0200	1.000

Natural gas price and market demand forecast

Forecast considerations

- The NYMEX to Canadian AECO price historical differential is used to arrive at the AECO forecasted price.
- Gas prices have been determined independently from oil prices but still reflect the current competitive nature of the two fuels. Direct spot sales prices are currently receiving a \$0.10/Mcf premium over system gas which is reflected in the forecast.
- Even though the Western Canadian gas market is highly competitive and prices have historically varied between purchasers, it is the view of AJM Deloitte that this will not hold as true in the future. The supply, demand and competition will keep the purchasers in close proximity to each other. Saskatchewan direct prices receive a slight premium over Alberta direct due to the occasional bottlenecks that occur in Alberta.
- The NYMEX price is based on delivery at the Henry Hub in Louisiana, the nexus of 16 intra- and interstate natural



gas pipeline systems that draw supplies from the region's prolific gas deposits.

Year	AB Ref. Avg. Price	AB AECO Avg. Price	AB AECO Avg. Price	AB System Plant Gate Sales	AB Direct Plant Gate Sales	BC Direct Station 2 Sales	SK Direct Plant Gate Sales	NYMEX	NYMEX
	C\$/Mcf	C\$/Mcf	C\$/Mcf	C\$/Mcf	C\$/Mcf	C\$/Mcf	C\$/Mcf	US\$/Mcf	US\$/Mcf
	Current	Real	Current	Current	Current	Current	Current	Real	Current
Historical									
2008	\$7.88	\$8.38	\$8.15	\$8.13	\$7.92	\$8.21	\$8.19	\$9.12	\$8.88
2009	\$3.84	\$3.97	\$3.96	\$3.94	\$3.74	\$4.16	\$4.14	\$3.92	\$3.90
2010	\$3.76	\$4.00	\$4.00	\$4.07	\$3.76	\$4.00	\$3.90	\$4.38	\$4.38
2011									
12 Months H	\$3.48	\$3.65	\$3.65	\$3.83	\$3.46	\$3.37	\$3.38	\$4.00	\$4.00
0 Months F	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Avg.	\$3.48	\$3.65	\$3.65	\$3.83	\$3.46	\$3.37	\$3.38	\$4.00	\$4.00
Forecast									
2012	\$3.25	\$3.50	\$3.50	\$3.20	\$3.30	\$3.20	\$3.45	\$3.80	\$3.80
2013	\$3.85	\$4.00	\$4.10	\$3.80	\$3.90	\$3.80	\$4.05	\$4.40	\$4.50
2014	\$4.45	\$4.50	\$4.70	\$4.40	\$4.50	\$4.40	\$4.65	\$4.80	\$5.00
2015	\$4.90	\$4.85	\$5.15	\$4.85	\$4.95	\$4.85	\$5.10	\$5.15	\$5.45
2016	\$5.30	\$5.15	\$5.55	\$5.25	\$5.35	\$5.25	\$5.50	\$5.45	\$5.90
2017	\$5.75	\$5.45	\$6.00	\$5.70	\$5.80	\$5.70	\$5.95	\$5.75	\$6.35
2018	\$6.15	\$5.70	\$6.40	\$6.10	\$6.20	\$6.10	\$6.35	\$6.00	\$6.75
2019	\$6.65	\$6.00	\$6.90	\$6.60	\$6.70	\$6.60	\$6.85	\$6.35	\$7.30



Pricing philosophy

AJM Deloitte looks to both the futures and the past when we create our forecasts

Price forecasting takes into account many variables that can influence future prices. While experience tells us we must continually review the tools we use to predict future oil and gas prices, one constant is the impact that the geopolitical landscape has on pricing. This impact is most accurately reflected in the financial industry's futures market for commodities. That is why the futures market is the main influence in the creation of AJM Deloitte's price forecast.

At AJM Deloitte, we understand that sound analysis of changing trends can influence the decisions made about mergers, acquisitions, divestitures and investments. One of the ways we ensure our price forecasts are as accurate as possible is to review our pricing assumptions on a quarterly basis. Accurate and realistic information ensures better long-term decisions for our clients.

These forecasts are AJM Deloitte's best estimate of how the future will look

In preparing the price forecast, AJM Deloitte considers the current monthly trends, the actuals and trends for the year to date, and the prior year actuals in determining the forecast. The base forecast for both oil and gas is based on NYMEX futures in US dollars. Crude oil and natural gas forecasts are based on yearly variable factors weighted to a higher percentage for the current data and then reflecting a higher percentage to prior year historical data for the later years. Gas prices have been determined independently from oil prices but still reflect the current competitive nature of the two fuels and reflect historical oil-to-gas ratios for the latter years of the gas forecast.

AJM Deloitte prepares our price and market forecasts based on information we collect from numerous government agencies, industry publications, oil refineries, natural gas marketers and industry trends. Inflation forecasts and exchange rates have also been considered.

While these forecasts are considered reasonable, changing market conditions or additional information may require alteration from the indicated effective date.

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Glossary

Some of the words, phrases and acronyms we use frequently when talking about pricing are listed below:

AECO	Alberta Energy Company - historical name of a virtual trading hub on the NGX system
ANS	Alaska North Slope
ASCI	Argus Sour Crude Oil
AWB	Access Western Blend - Canadian condensate/bitumen mix
BR	Bow River Crude Oil
CBOT	Chicago Board Of Trade
CGA	Canadian Gas Association
DCQ	Daily Contract Quantity
EIA	Energy Information Administration
FERC	US Federal Energy Regulatory Commission
FOB	Free on Board (shipper term)
IEA	International Energy Administration
LLB	Lloydminster Blend Crude Oil
LNG	Liquefied Natural Gas
MESC	Middle East Sour Crude
MSO	Mixed Sour Crude Oil
MSW	Canadian Light Sweet
NEB	Canadian National Energy Board
NIT	Nova Inventory Transfer
NYMEX	New York Mercantile Exchange
OECD	Organization of Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
PADD	Petroleum Administration Defense District
USGC	US Gulf Coast
USWC	US West Coast
WCS	Western Canada Select Crude Oil
WTI	West Texas Intermediate
WTS	West Texas Sour