



Canadian domestic price forecast

March 31, 2012

Forecast commentary

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The collapse of the North American natural gas price

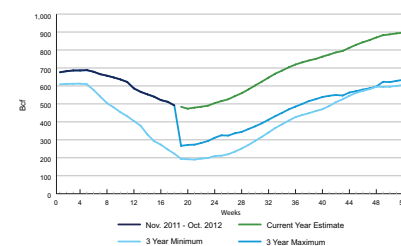
Moving into spring, we reach the close of the withdrawal season for natural gas. The North American market is feeling the full effects of the continued oversupply of natural gas as a result of a very mild winter experienced on both sides of the border. The price of natural gas is now at levels the industry has not seen since the late 1990's and the prospects for any recovery do not appear to be imminent. In prior price forecast determinations it was anticipated that the price of natural gas would rebound to moderately higher levels. The drop in natural gas drilling rigs across North America, hopes of at least an average cold winter season, and the anticipation of recession recovery were examples of the "wait and see" approach which maintained the prior forecasted higher natural gas prices. For North American natural gas, the worst case scenarios now greet the industry as we move into the injection season. Storage levels for both Canada (Figure 1) and the United States (Figure 2) are at all-time highs. This will put added pressure on natural gas prices moving into the summer; production levels are expected to continue to surpass peak storage levels.

In both figures you will note that the current actual storage volumes are the new maximum volumes. In week 19, the prior maximum volumes were at 266Bcf for Canada and 1,651Bcf for the US. In week 18 actuals are at 492Bcf and 2,433Bcf respectively. The estimates on both figures represent the average historical injection volume for the prior three years in Canada and five years in the US during equivalent time periods. Both figures show that by the start of the next withdrawal cycle in November 2012, storage will be at unprecedented levels.

Even with the decline in natural gas drilling there appears to be no drop in supply. Figure 3 shows the US gas production profile versus the active drilling rigs over the same period as in Figure 1 and 2. Even the estimation of a colder winter over 2012-2013 will not significantly reduce storage levels to impact any noticeable price recovery into next year. Until there is a clear indication of a sustained return to growth in the US economy, there will be limited increase in demand on the industrial usage side of the equation thus maintaining a low natural gas price.

Figure 1

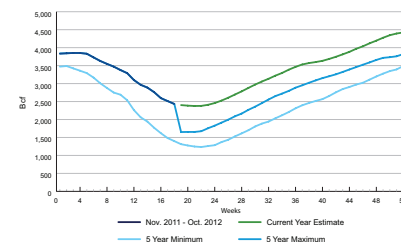
Canadian gas storage comparison between November to October



Data source: AJM Deloitte 2012

Figure 2

US gas storage comparison between November to October



Data source: AJM Deloitte 2012

Figure 3

US natural gas production versus rig count



Data source: US EIA and Baker Hughes 2012

“Courage is the commitment to begin without any guarantee of success.”

- Johann Wolfgang von Goethe

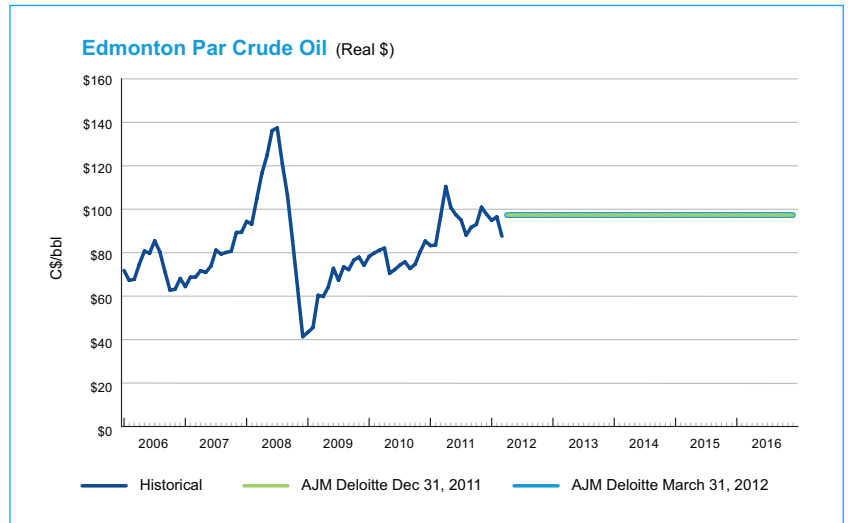
Due to these factors, AJM Deloitte is significantly adjusting the North American natural gas price forecasts in the March 31, 2012 release. For the balance of 2012, AECO will be at C\$2.30/Mcf and NYMEX at US\$2.80/Mcf. Moving into 2013, AECO is estimated at C\$3.20/Mcf with NYMEX at US\$3.50/Mcf. There will be continued moderate growth over the next decade for natural gas prices. The long term forecast is reached by 2021 in real terms, with AECO at C\$6.20/Mcf and NYMEX at US\$6.50/Mcf.

The North American natural gas market continues to evolve in the New Year. One alternative has Canada and the US looking at possible LNG exports into the higher priced World markets. The push to use natural gas as an alternative fuel, especially over coal, also continues to be considered. Unfortunately, these are longer term solutions and, therefore, North America will continue to see low natural gas prices into the foreseeable future.

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.

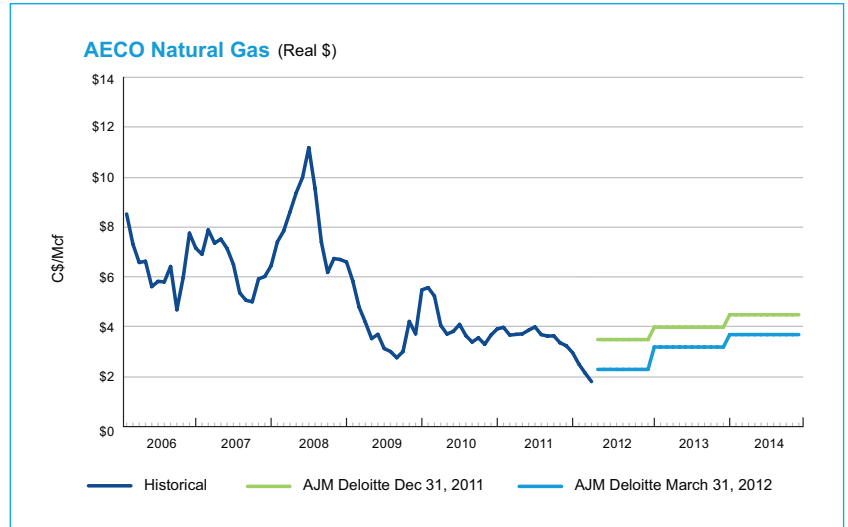


Year	WTI Cushing, OK (40 Deg. API)	WTI Cushing, OK (40 Deg. API)	Canadian Par Edmonton, AB (40 Deg. API)	Canadian Par Edmonton, AB (40 Deg. API)	SE SK Med. Oil Cromer, MB (29 Deg. API)	Bow River Oil Hardisty, AB (25 Deg. API)	Heavy Oil Hardisty, AB (12 Deg. API)	Cost inflation	CAD to USD exchange
	US\$/bbl	US\$/bbl	C\$/bbl	C\$/bbl	C\$/bbl	C\$/bbl	C\$/bbl	Rate	Rate
	Real	Current	Real	Current	Current	Current	Current		
Historical									
2009	\$63.08	\$61.78	\$67.60	\$66.21	\$62.77	\$59.90	\$54.49	0.0031	0.880
2010	\$80.84	\$79.42	\$79.18	\$77.79	\$73.48	\$68.16	\$60.59	0.0176	0.971
2011	\$94.91	\$94.91	\$95.58	\$95.58	\$88.21	\$78.50	\$69.56	0.0292	1.012
2012									
3 Months H	\$103.00	\$103.00	\$93.63	\$93.63	\$88.16	\$83.28	\$72.33	0.0237	0.997
9 Months F	\$100.00	\$100.00	\$98.00	\$98.00	\$91.00	\$77.00	\$71.00	0.0000	1.000
Avg.	\$100.75	\$100.75	\$96.91	\$96.91	\$90.29	\$78.57	\$71.33	n/a	0.999
Forecast									
2012	\$100.00	\$100.00	\$98.00	\$98.00	\$91.00	\$77.00	\$71.00	0.0000	1.000
2013	\$100.00	\$102.00	\$98.00	\$100.00	\$92.30	\$79.00	\$73.00	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									
2009	\$3.84	\$4.04	\$3.96	\$3.94	\$3.74	\$4.16	\$4.14	\$3.99	\$3.90
2010	\$3.76	\$4.07	\$4.00	\$4.07	\$3.76	\$4.00	\$3.90	\$4.46	\$4.38
2011	\$3.46	\$3.63	\$3.63	\$3.84	\$3.42	\$3.34	\$3.33	\$3.99	\$3.99
2012									
3 Months H	\$2.32	\$2.16	\$2.16	\$2.42	\$1.97	\$2.69	\$2.07	\$2.47	\$2.47
9 Months F	\$2.05	\$2.30	\$2.30	\$2.00	\$2.10	\$2.00	\$2.25	\$2.80	\$2.80
Avg.	\$2.12	\$2.26	\$2.26	\$2.11	\$2.07	\$2.17	\$2.21	\$2.72	\$2.72
Forecast									
2012	\$2.05	\$2.30	\$2.30	\$2.00	\$2.10	\$2.00	\$2.25	\$2.80	\$2.80
2013	\$3.00	\$3.20	\$3.25	\$2.95	\$3.05	\$2.95	\$3.20	\$3.50	\$3.55
2014	\$3.60	\$3.70	\$3.85	\$3.55	\$3.65	\$3.55	\$3.80	\$4.00	\$4.15
2015	\$4.00	\$4.00	\$4.25	\$3.95	\$4.05	\$3.95	\$4.20	\$4.30	\$4.55
2016	\$4.40	\$4.30	\$4.65	\$4.35	\$4.45	\$4.35	\$4.60	\$4.60	\$5.00
2017	\$4.85	\$4.60	\$5.10	\$4.80	\$4.90	\$4.80	\$5.05	\$4.90	\$5.40
2018	\$5.40	\$5.00	\$5.65	\$5.35	\$5.45	\$5.35	\$5.60	\$5.30	\$5.95
2019	\$5.85	\$5.30	\$6.10	\$5.80	\$5.90	\$5.80	\$6.05	\$5.60	\$6.45



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.

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

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