

International price forecast

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Forecast commentary

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The crude oil price oscillates as the world moves forward

In predicting the future of crude oil prices, one thing has not changed: the impact world events have on the price of crude oil. Coupled with political influences are questions on the ability for world oil producers to maintain the supply and demand balance (Figure 1).

Influenced by events in the Middle East, the threat of supply disruption into Europe, and the Asian markets we are currently seeing Brent futures trading over US\$125.00/bbl. West Texas Intermediate (WTI) is around US\$105.00/bbl; a reflection of the land locked nature of this mid-western US reference point in an over-supplied market. This is further reflected in an even lower price for Canadian light crude oil, around US\$85.00/bbl, as a significant portion flows into the United States exasperating the over-supply into the Cushing area. Any speculation due to political uncertainty is now more reflective in the Brent crude oil price than the WTI price, hence the US\$20.00 differential that is currently being experienced.

Basically, there is a supply and demand imbalance, not unlike that experienced with natural gas, between North America and the rest of the world. The comparison to natural gas has North American prices in the \$2.00 to \$3.00/MMBtu range, while the British National Balancing Point (BNP) is over US\$9.00/MMBtu, and contract reports of LNG deliveries into the Asian market for April are as high as US\$15.00/MMBtu.

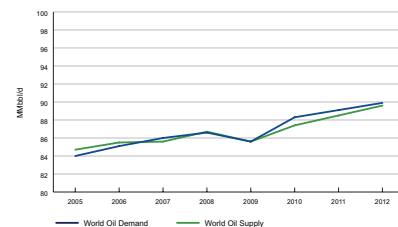
“Dig the well before you are thirsty.”

- Old Proverb

From a Canadian perspective, the same old story continues. Canada has a world class resource, but a restricted market that is in a state of over-supply. If Canadian crude oil had access to world markets it could be an alternative to current political influences. The world economies are very fragile and oil sitting at \$US100.00/bbl does not help recoveries. An additional million barrels a day of Canadian crude oil sailing across the sea and sold on the World market would help to reduce the spread from Brent back to WTI values, increasing

Figure 1

Supply and demand for world oil



Data source: International Energy Agency (IEA) 2012

the value of Canadian oil closer to Brent. It would be an economic triumph for the world's oil consumers, a more stable reduced price, an immense benefit to Canada's GDP, and resulting in an energy industry finally receiving a realistic value for their product.

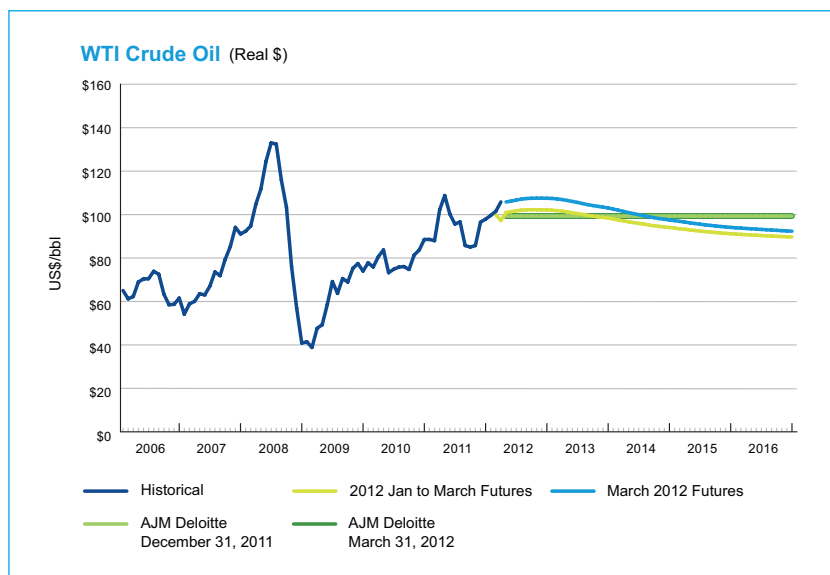
The high price we are seeing for Brent crude oil is a reflection, as stated earlier, of the supply and demand balance combined with the uncertainties of disruption. Based on the IEA supply and demand review, the world has been very close to that balancing point for a number of years, hence the rise in the base oil price to the US\$100.00/bbl mark. With the recession in 2008, demand dropped off and supply was seen as adequate to meet demand. Now with modest recovery in the world's economies, and with the Asian countries still forging ahead in developing their consumer driven economies, the demand is slowly catching back up to the balance point. The ability for the traditional swing producers, like Saudi Arabia, to make up any short fall in potential disruptions is also in question resulting in the higher futures price speculation. An added million barrels a day from a stable regime such as Canada – both politically and economically – could only ease the world uncertainties. The potential also exists from this Canadian resource to supply even more than 1 million barrels a day into the world market and still meet the demands of the North American market.

Now the question is, does Canada have the national desire and will to become a world energy player?

Crude oil price and market demand forecast

Forecast considerations

- Current forecasts for other Crude Oil reference points are based on historical trends to the WTI price.
- Brent, United Kingdom crude is based on 38.3°API with 0.37% sulphur content. Brent blend is a light sweet North Sea crude oil that serves as an international benchmark grade.
- United States Gulf Coast Argus Sour Crude Index (ASCI) is a blend of offshore Gulf Coast oil from Mars, Poseidon, and Southern Green Canyon.
- OPEC Basket represents the current grouping of crude oil prices from the OPEC member countries.
- Nigerian Bonny Light is based on 33.4°API FOB at local port of landing.
- Mexico Maya is based on 21.8°API FOB at local port of landing.
- Russia Urals 31.7°API is the FOB delivered price to the Mediterranean destinations.

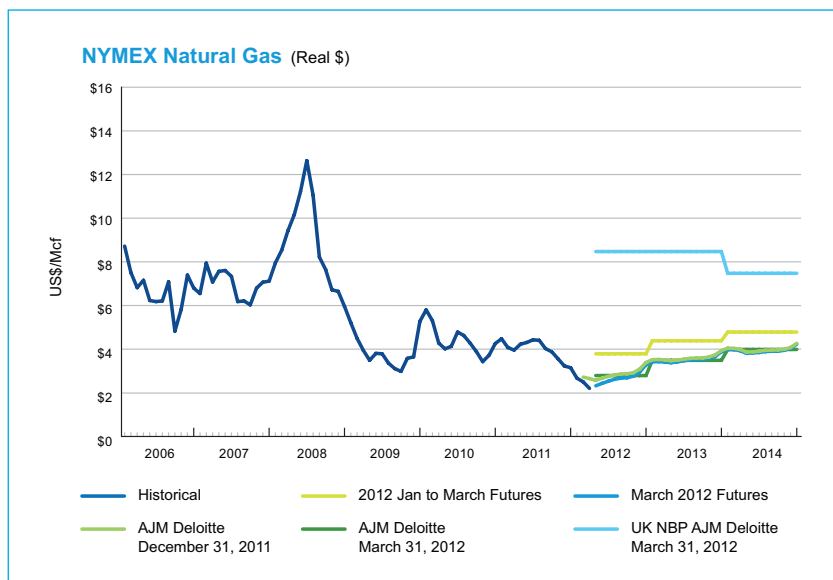


Year	Average WTI Spot	Brent Spot	Gulf Coast ASCI	Average OPEC Basket	Nigerian Bonny Light	Mexico Maya	Russia Urals
	US\$/bbl Real	US\$/bbl Real	US\$/bbl Real	US\$/bbl Real	US\$/bbl Real	US\$/bbl Real	US\$/bbl Real
Forecast							
2012	\$100.00	\$115.00	\$102.00	\$112.25	\$113.00	\$105.00	\$113.00
2013	\$100.00	\$110.00	\$100.00	\$107.25	\$108.00	\$100.00	\$108.00
2014	\$100.00	\$105.00	\$98.00	\$102.25	\$103.00	\$95.00	\$103.00
2015	\$100.00	\$105.00	\$98.00	\$102.25	\$103.00	\$95.00	\$103.00
2016	\$100.00	\$105.00	\$98.00	\$102.25	\$103.00	\$95.00	\$103.00
2017	\$100.00	\$105.00	\$98.00	\$102.25	\$103.00	\$95.00	\$103.00
2018	\$100.00	\$105.00	\$98.00	\$102.25	\$103.00	\$95.00	\$103.00
2019	\$100.00	\$105.00	\$98.00	\$102.25	\$103.00	\$95.00	\$103.00
2020	\$100.00	\$105.00	\$98.00	\$102.25	\$103.00	\$95.00	\$103.00

Natural gas price and market demand forecast

Forecast considerations

- 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.
- The NYMEX market trades natural gas futures to the year 2021.
- Gas prices have been determined independently from oil prices but still reflect the current competitive nature of the two fuels.
- With the increase in the United States shale gas plays over the last few years, AJM Deloitte introduced estimates for a number of US supply regions effective with its September 30, 2009 price forecast.
- Expanded world activity has also given cause to provide an estimate for the United Kingdom NBP price.



Year	USD to GBP Exchange	USD to EUR Exchange	NYMEX	Permian Waha	San Juan Ignacio	Gulf Coast (Onshore)	Louisiana East Texas	Rocky Mtn. Opal	UK NBP
	Rate	Rate	US\$/Mcf Real	US\$/Mcf Real	US\$/Mcf Real	US\$/Mcf Real	US\$/Mcf Real	US\$/Mcf Real	US\$/Mcf Real
Forecast									
2012	1.600	1.300	\$2.80	\$2.45	\$2.50	\$2.65	\$2.80	\$2.40	\$8.80
2013	1.650	1.300	\$3.50	\$3.15	\$3.20	\$3.35	\$3.50	\$3.10	\$8.50
2014	1.650	1.300	\$4.00	\$3.65	\$3.70	\$3.85	\$4.00	\$3.60	\$7.50
2015	1.650	1.300	\$4.30	\$3.95	\$4.00	\$4.15	\$4.30	\$3.90	\$7.80
2016	1.650	1.300	\$4.60	\$4.25	\$4.30	\$4.45	\$4.60	\$4.20	\$8.10
2017	1.650	1.300	\$4.90	\$4.55	\$4.60	\$4.75	\$4.90	\$4.50	\$8.40
2018	1.650	1.300	\$5.30	\$4.95	\$5.00	\$5.15	\$5.30	\$4.90	\$8.80
2019	1.650	1.300	\$5.60	\$5.25	\$5.30	\$5.45	\$5.60	\$5.20	\$9.10



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.

Crude Oil Quality

API° & Sulphur %wt

United States Crude Reference Price Points:

West Texas Intermediate (WTI)	39.6°	0.24%wt
Alaska North Slope (ANS)	31.9°	0.93%wt
California Kern River	13.4°	1.20%wt
Heavy Louisiana Sweet	32.9°	0.35%wt
Louisiana Light Sweet	35.6°	0.37%wt
Mars Blend US Gulf of Mexico	28.9°	2.05%wt
Wyoming Sweet	37.2°	0.33%wt

International Crude Reference Price Points:

United Kingdom Brent	38.3°	0.37%wt
US Gulf Coast Argus Sour Crude (ASCI)		
<i>Approx.</i>	29.1°	2.00%wt
OPEC Basket (1)		
Venezuelan BCF-17 Bachaquero	16.5°	2.53%wt
Venezuelan Meresy	16.0°	2.45%wt
Nigerian Bonny Light	33.4°	0.16%wt
Arabia UAE Dubai Feteh	30.4°	2.13%wt
Mexico Maya	21.8°	3.33%wt
China Daqing	32.3°	0.11%wt
Russia Urals	31.7°	1.35%wt
Indonesia Minas	35.3°	0.09%wt

(1) The current OPEC Reference Basket (ORB) is made up of the following crudes: Saharan Blend - Algeria; Girassol - Angola; Oriente - Ecuador; Iran Heavy - Islamic Republic of Iran; Basra Light - Iraq; Kuwait Export - Kuwait; Es Sider - Libya; Bonny Light - Nigeria; Qatar Marine - Qatar; Arab Light - Saudi Arabia; Murban - UAE; Meresy - Venezuela.

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