

# Update on the State of the Canadian Energy Sector



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DEVELOPMENT ASSOCIATION



**RBC Capital Markets**

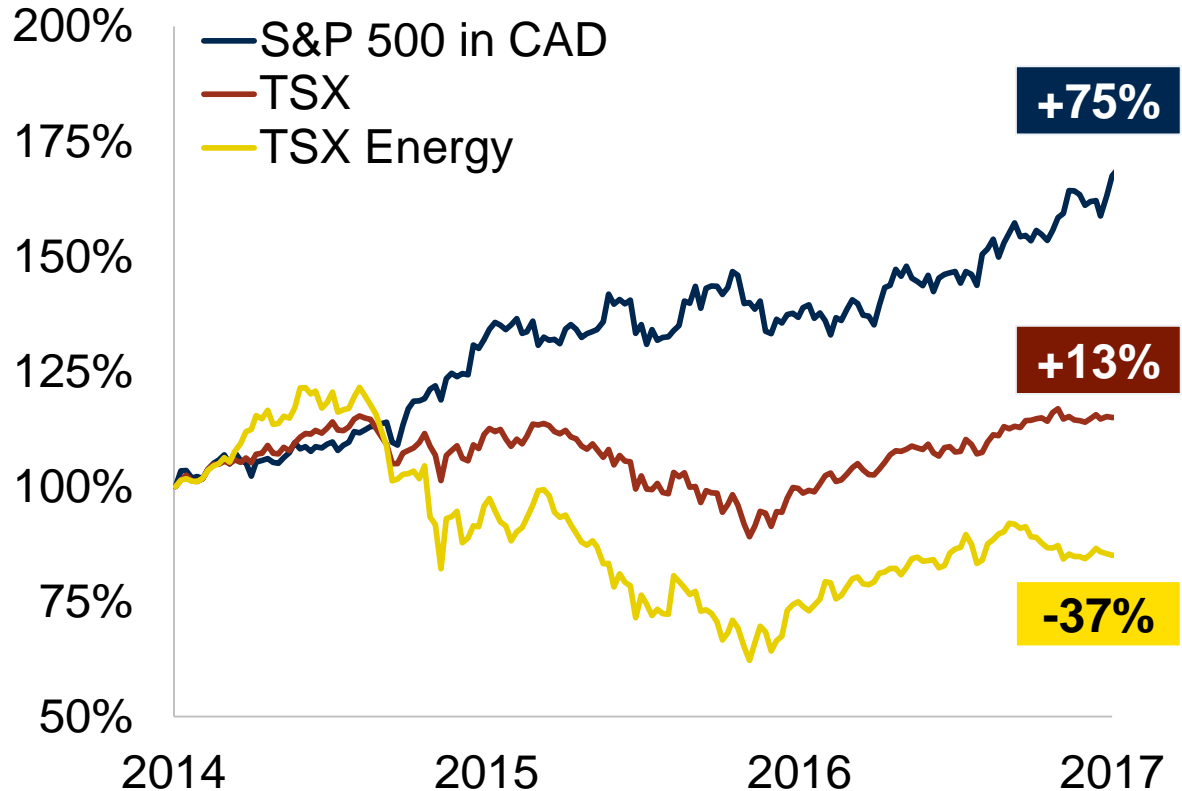
# Macro Market Environment

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- **Strong global growth**
- **Multiple years of excellent equity market returns**
- **Huge cash balances around the world**
- **Volatility expanding**
  - Trade and geopolitical risks
  - Interest rates rising
  - “Safety trade” not clear
- **Global “sell Canada” theme (equity/debt)**
- **Negative sentiment around energy**

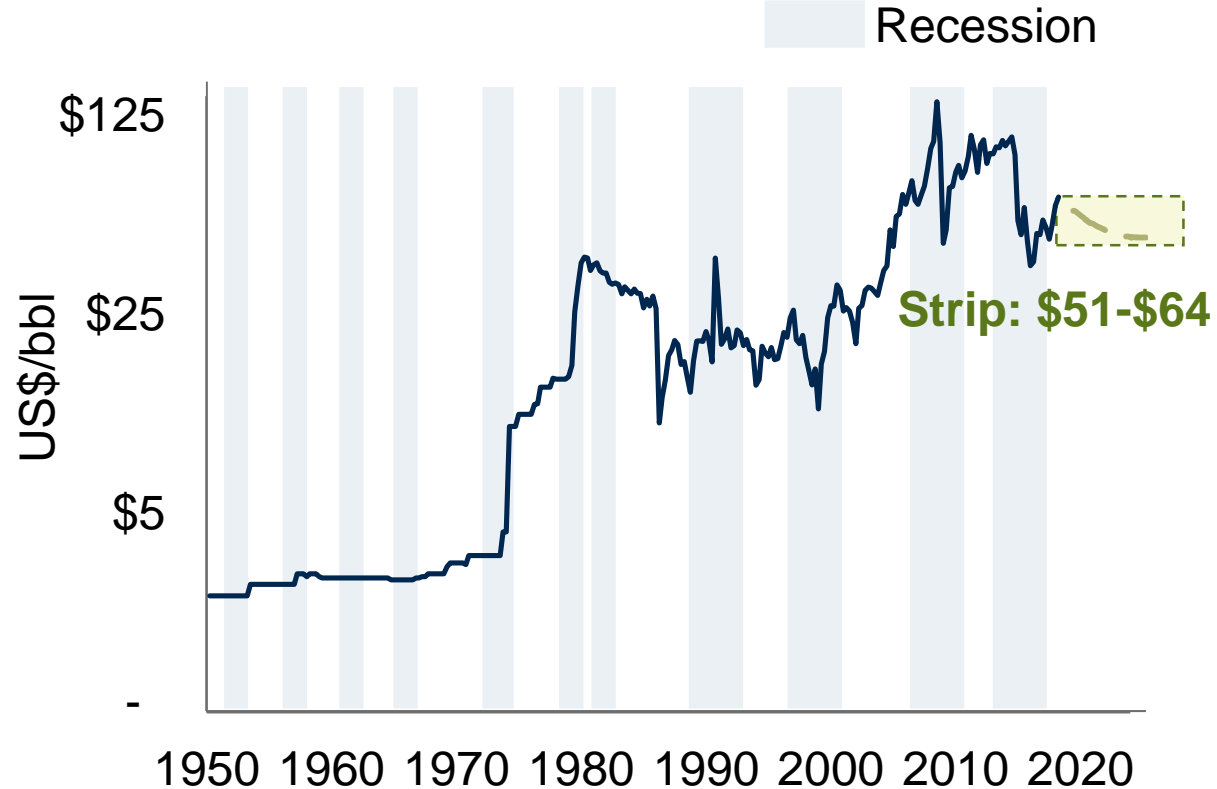
# Equity Market Environment

- **Investor energy holdings are at historic lows**
- **If buying energy, focus is on large cap and U.S. companies**
- **Don't need to own energy**



# Oil Price Outlook

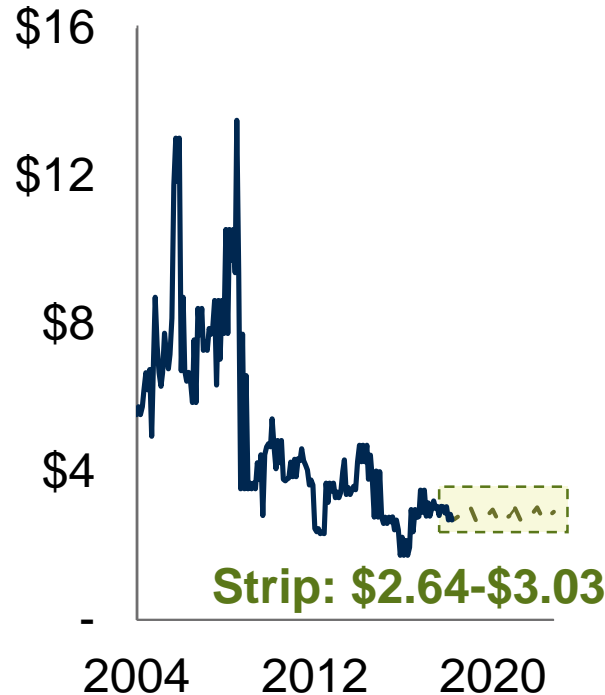
- Over time, oil prices have had years of relative stability (volatility was often linked to conflict)
- During periods of stability, the world benefitted from excess supply and production controls (OPEC/Texas Railroad Commission)



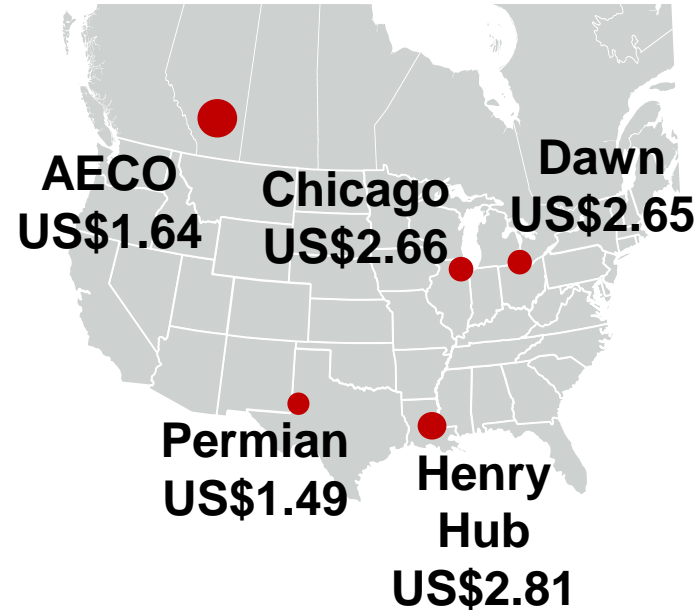
# Gas Price Outlook

- Gas prices in North America have fallen as unconventional resources have proven their scale and break-evens
- Producers have had to manage market access and associated gas
- Upside in price outlook if/as gas realizes global pricing

## Historic Gas Trends Henry Hub – US\$/MMbtu



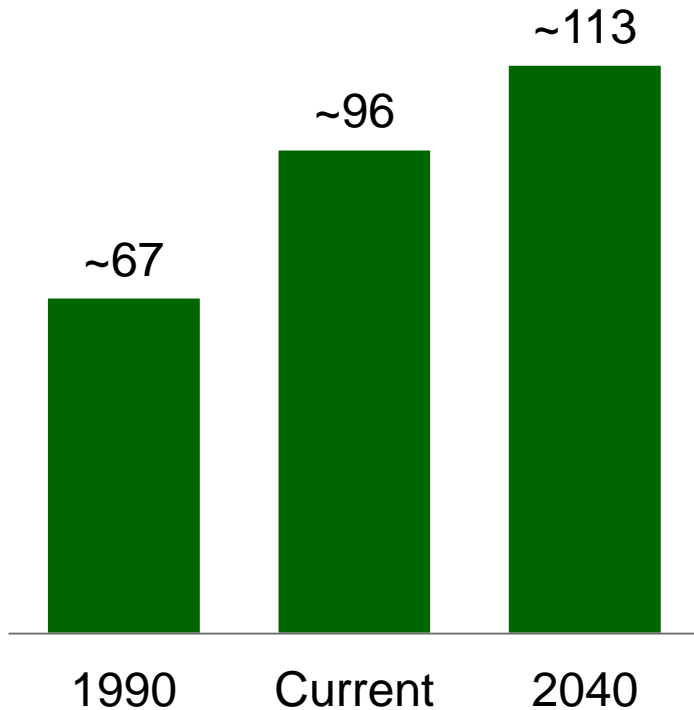
## Natural Gas Prices at Different Hubs



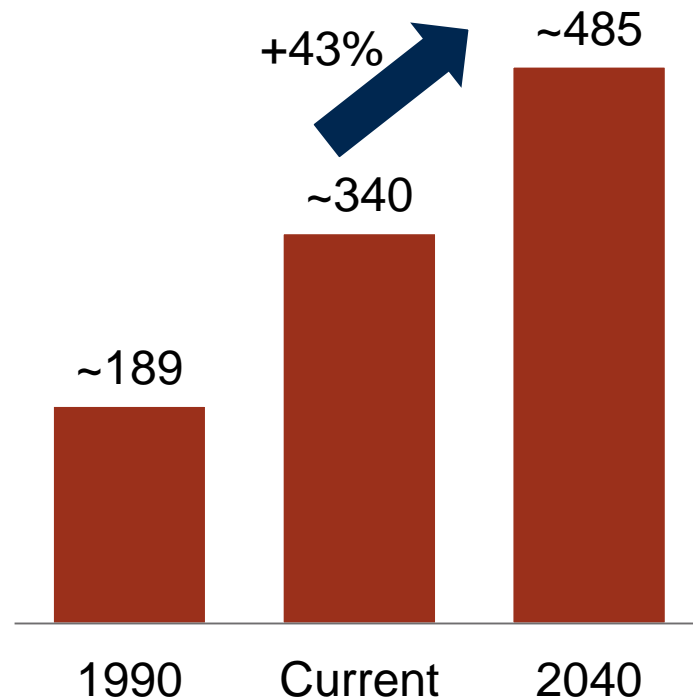
# Global Demand for Hydrocarbons Remains Strong

Global Oil Demand – *MMboe/d*

- Despite headlines, oil and gas demand is projected to remain strong to 2040

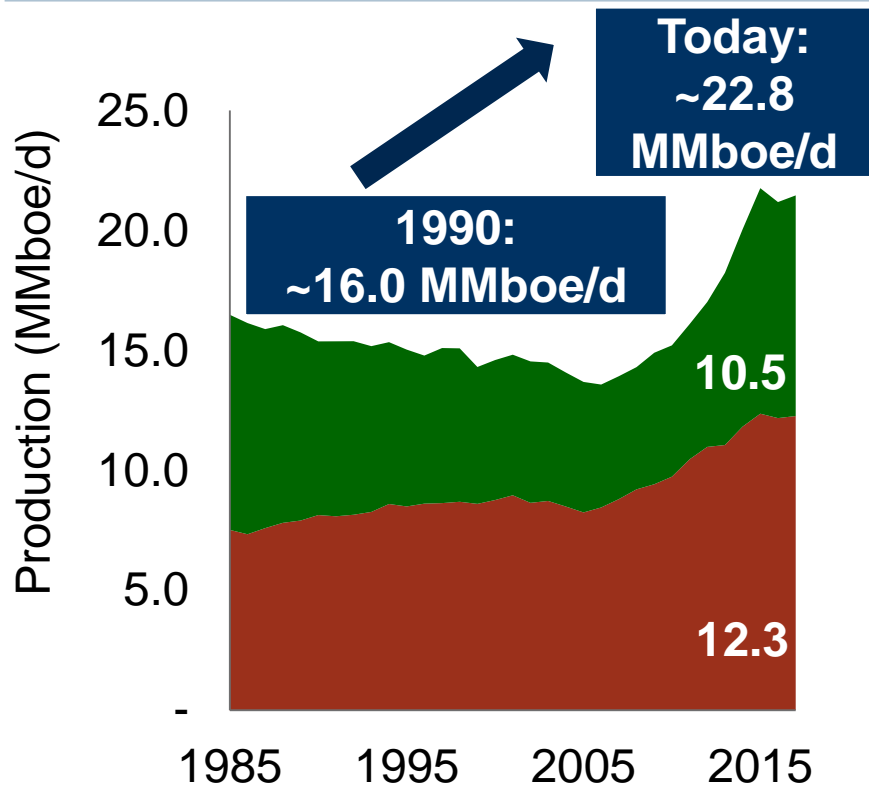


Global Gas Demand – *Bcf/d*

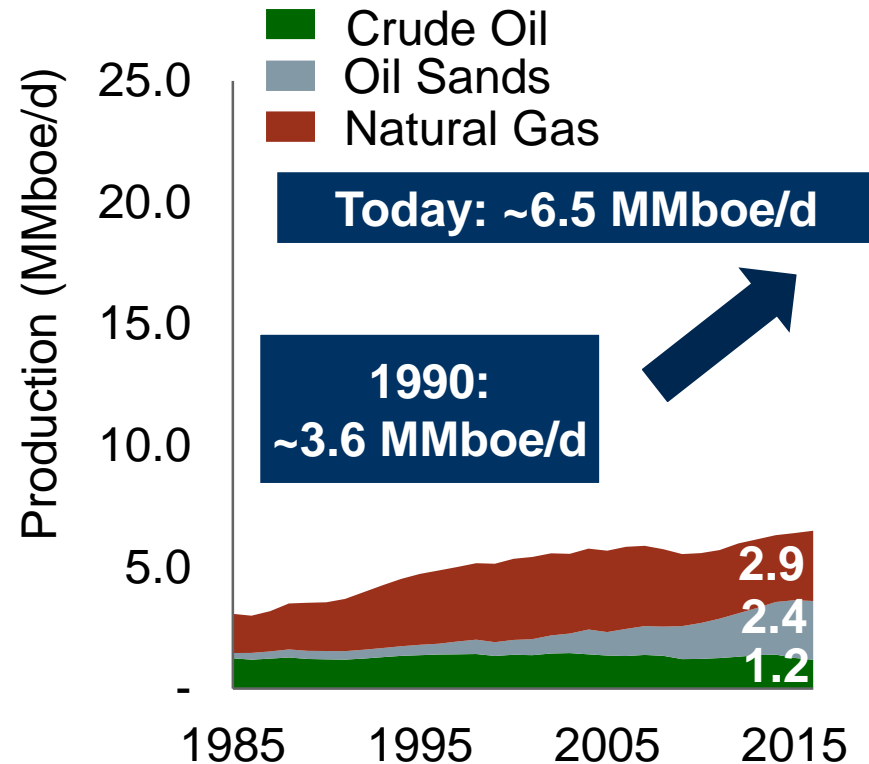


# U.S. is Capturing a Larger Portion of Oil & Gas Market Growth

## U.S. Oil & Gas Production



## Canadian Oil & Gas Production

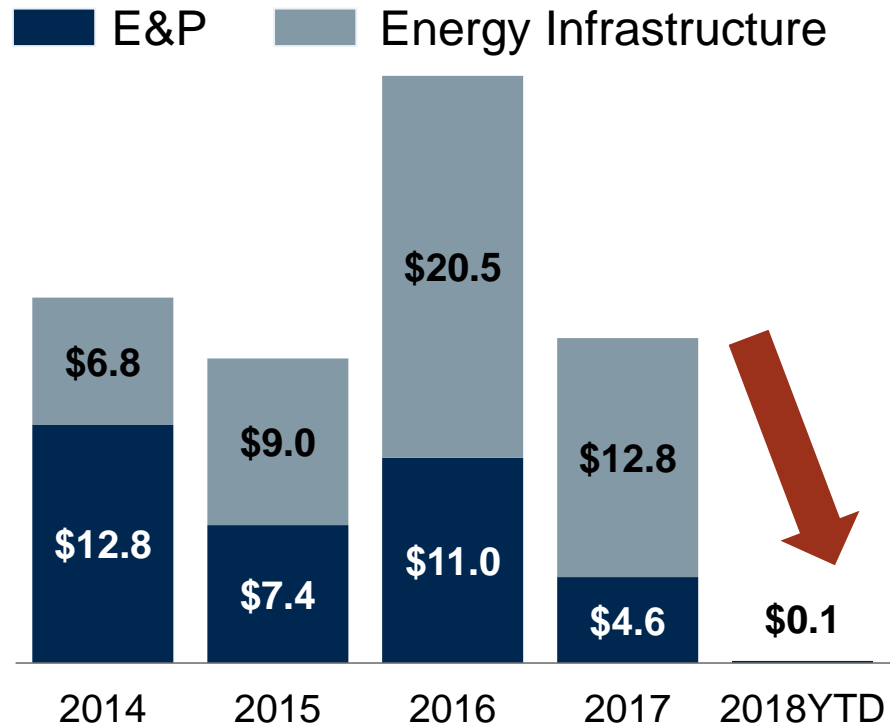


# Investors Are Not Looking to Invest in Canada

## Operating Environment

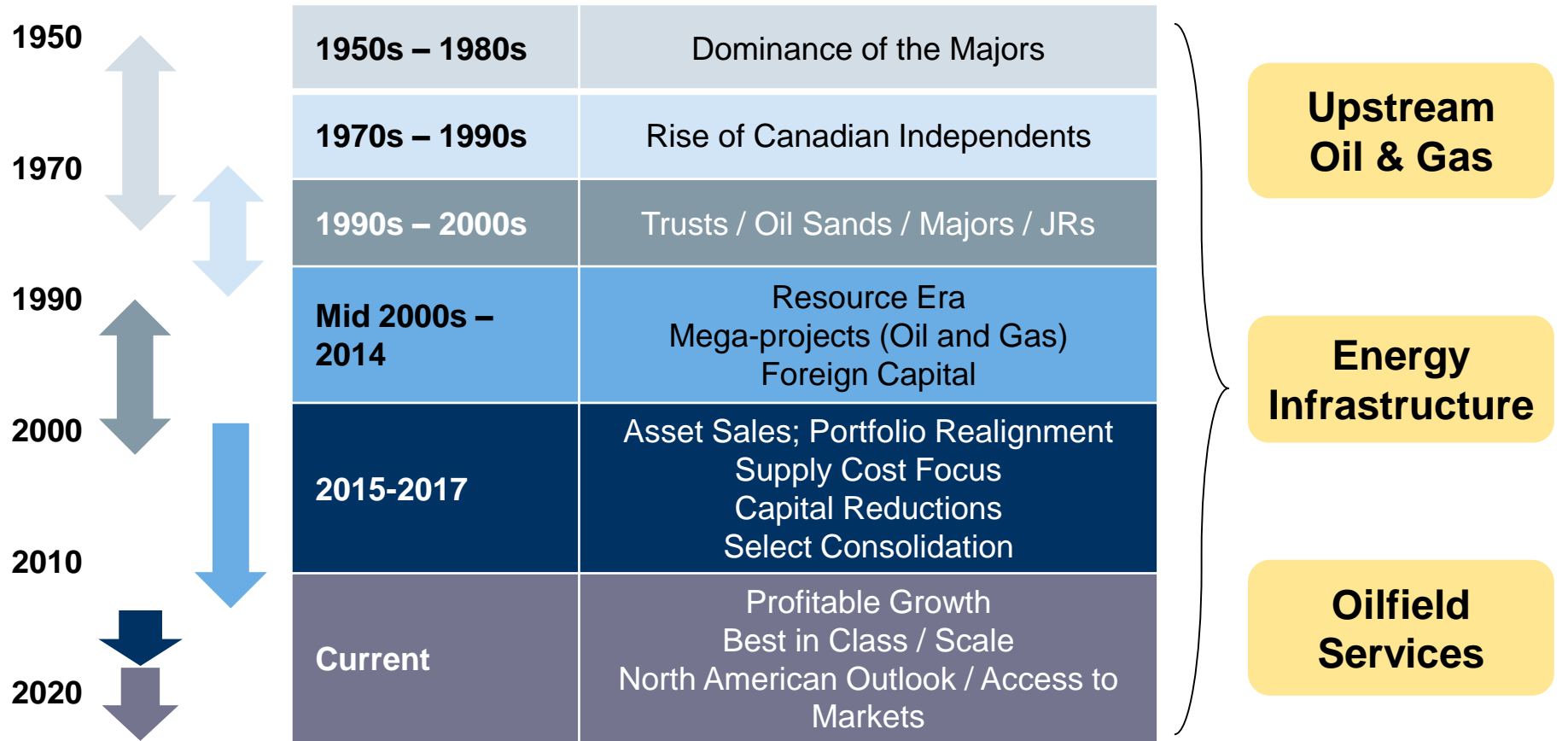
Tax	↑	↓
Regulatory Burden	↑	↓
Uncertainty	↑	↓
Access to Markets	↓	↑
Quality of Resource	✓✓	✓✓✓
Flow of Capital	✗	✓

## Canadian E&P Issuances – C\$Bn





# Negativity is Significant but Canada has Managed Change Before

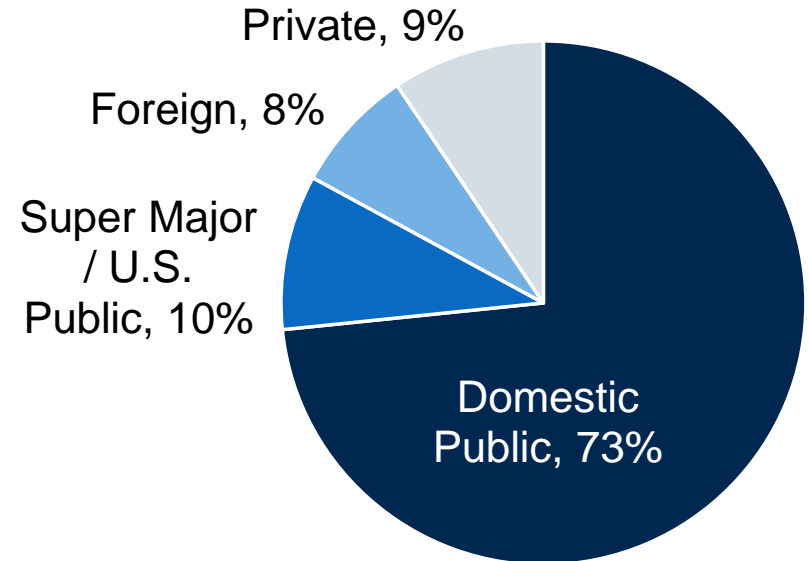


# Upstream – Oil Sands and Unconventional Resources Key to Sector

**> \$300 Billion Combined EV**

- **>6.5 MMboe/d of production (2017)**
- **>\$100 Billion of revenue (2017)**
- **>\$20 Billion capital spending (2017)**
- **>\$20 Billion of sustaining and operating costs**

## Breakdown of Canadian Production

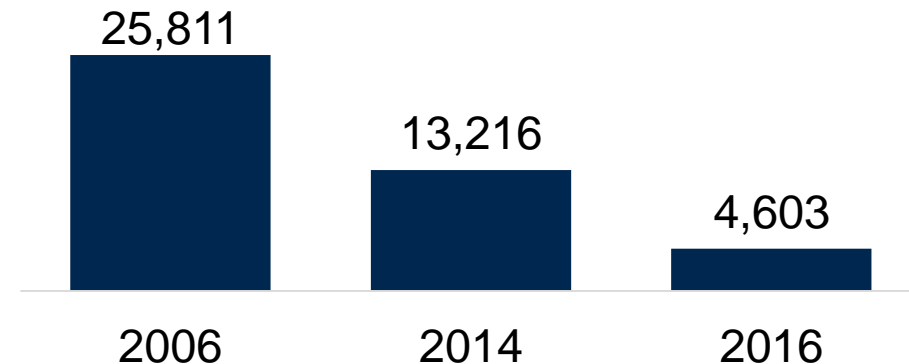


# Oilfield Services Sector Relevant and Evolving

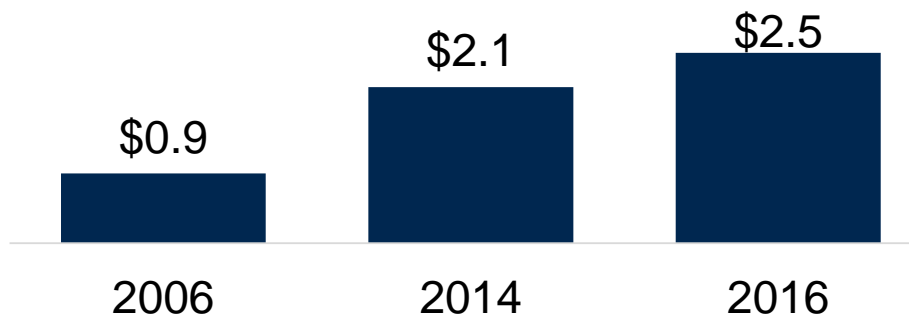
**> \$12 Billion Combined EV**

- **Managing through evolution of service work**
- **Sector had excess capacity in select areas**
- **New normal is in the field**
- **Wages back to historic levels**
  - Difficult to get employees

## New Wells Drilled (>\$100MM)

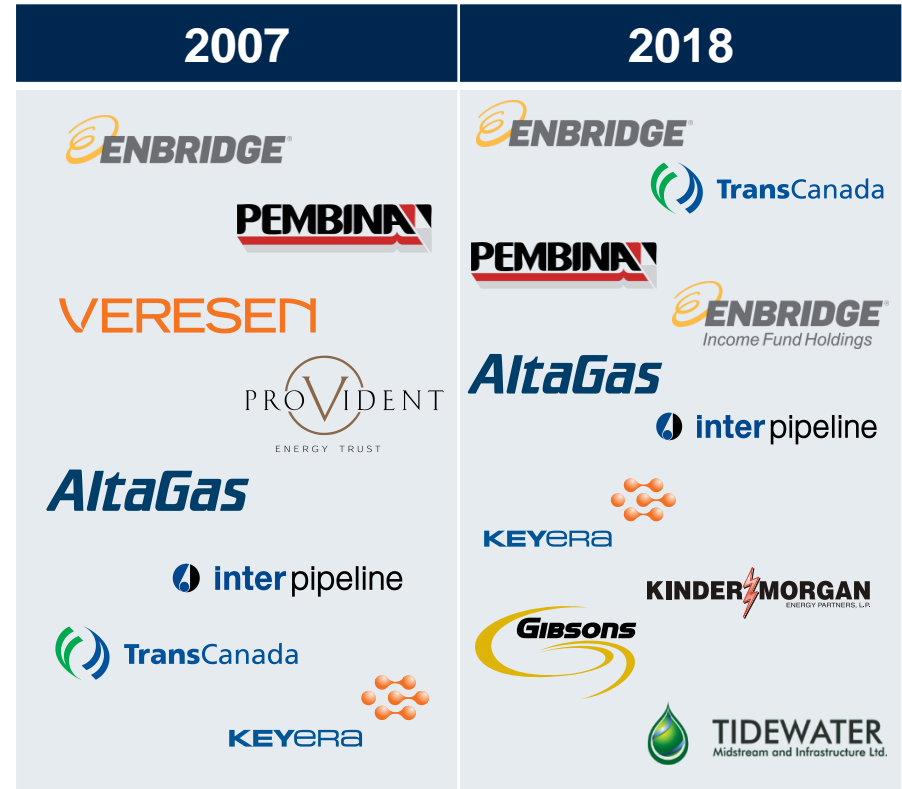
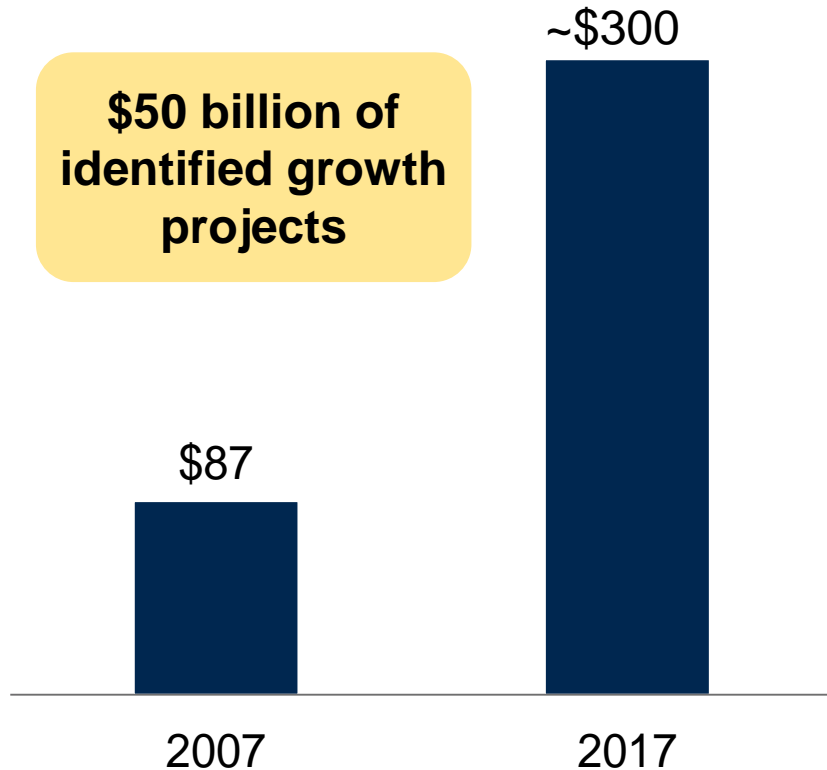


## Capital Cost per Well – C\$MM/well



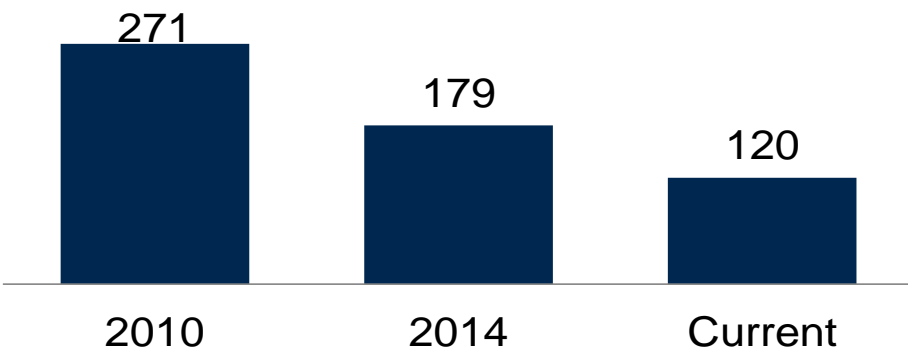
# Canada is Home to Leading North American Midstream Companies

## Enterprise Value – C\$Bn

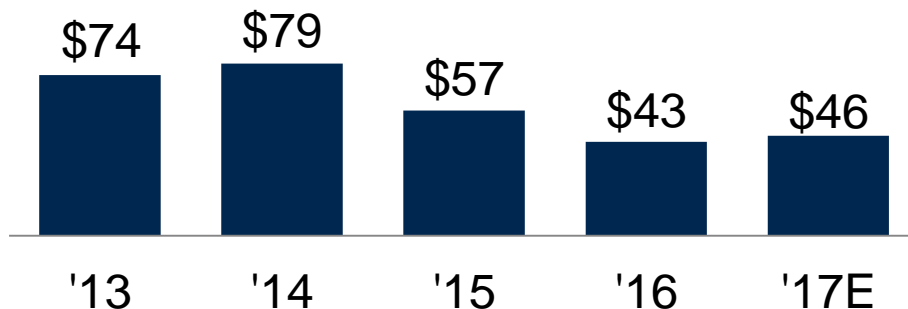


# Upstream Sector Getting More Efficient and Consolidating

## Public Canadian Energy Companies



## E&P Capital Expenditures – C\$Bn



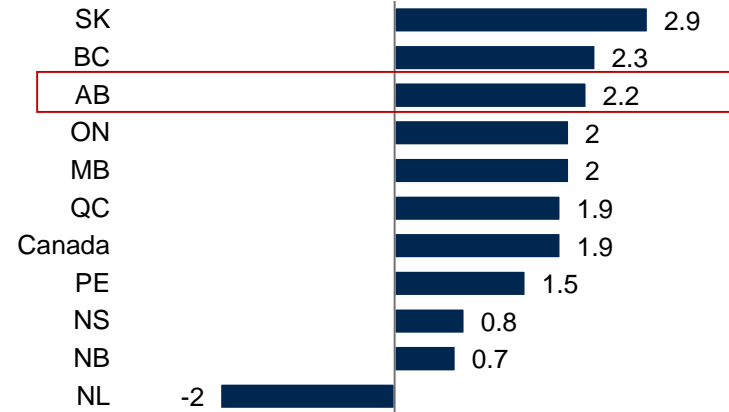
## Illustrative Efficiency

	# of Employees	Production
<b>2007</b>		
<b>Pengrowth</b>	568	87 mboe/d
<b>Penn West</b>	1,850	165 mboe/d
<b>2018</b>		
<b>7G</b>	179	175 mboe/d
<b>Tourmaline</b>	429	242 mboe/d

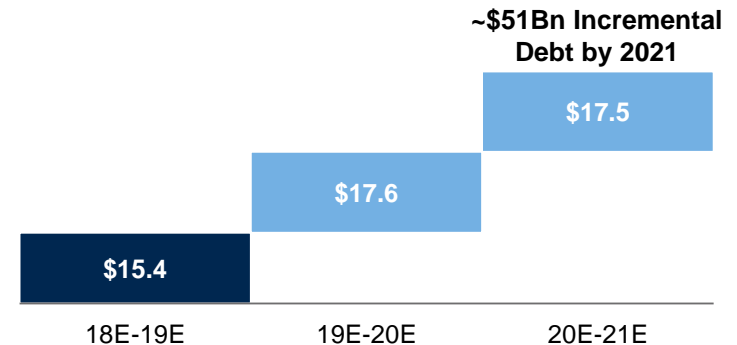
# Alberta – Adjusting to a New Reality

- Significant growth in public sector and jobs related to government spending
- Alberta has stabilized after facing material challenges
- Population growth is positive (migration has stopped)
- Growth data looks strong, but the economy is coming off a weak base
- Alberta remains well positioned for the long-term
  - Lowest debt to GDP among provinces
  - Highest income rates in Canada
  - Skilled young workforce

Real GDP Growth  
(% change)



Forecast Long Term  
Debt (C\$Bn)



**Cultural story of taking risk and creating value**

# Where to from here....

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## Downside

- Head offices move to the United States
- Regulatory burdens limit market access
- Further capital erosion
- Loss of social support for the energy sector
- Debt/housing issues impact Canada

## Manage and Maintain

- Maintain new normal
- Upside in evolving energy plays (Duvernay/East Shale)
- Economic diversification
- Technology success in oil sands

## Upside

- LNG
- Investor sentiment/capital flows
- Market access
- Commodity prices
- Economic diversification

## Other Real Estate Considerations

- Energy sector needs partners to share risk
- Flexibility/innovation are new requirements
- Limited new energy names → Incumbents are key players

# Disclaimer (Canada)

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