

June 2022 – CSUR Technical Webinar

Canada's mid-year report card: price spikes, capital restraint and plenty of uncertainty

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**TECHNICAL
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CANADA'S MID-YEAR REPORT CARD: PRICE SPIKES, CAPITAL RESTRAINT AND PLENTY OF UNCERTAINTY

PRESENTED BY

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Canada, and indeed most countries around the globe, continue to struggle with inflation, effects of conflict & polarization, and overall uncertainty. However, how has Canada fared through all of this for the 1st half of the year and what does the near & long-term future hold for our resource-dominated economy? To speculate on these and other important themes for Canada, CSUR invited Scott Norlin, Research Analyst with Wood Mackenzie Canada Ltd., to share their perspectives and prognosis.

From a very high-level outlook, the speaker indicated that the current situation will continue to persist for quite some time, even if there is a sudden rush to initiate more projects. Given the unclear geopolitical, regulatory and financial environments, it is expected that reinvestment will remain low in favour of capital discipline, share buyback programs and improved dividend payouts. In addition, required skilled and experienced labour shortages on the service side will result in additional delays for major projects once operators are ready to mobilize capital.

Global energy markets outside of North America continue to focus on the oil side of the equation, despite the obvious lower carbon attributes of gas-based fuels. Canadian producers, however, continue to increase production and are steadily moving into the higher echelons among their North American peers. There are now 5 Canadian companies in the top 25 in North America

(USA & Canada), based on total production (CNRL - #4, Suncor - #10, Cenovus - #13, Tourmaline - #19, and ARC Resources - #24).

Consolidation in the form of mergers and acquisitions (M&A) within the energy industry dominated the American & Canadian landscapes in 2020 and 2021. Although the pace of consolidation has slowed somewhat, it is speculated that with continued strong commodity prices and robust balance sheets, M&A may pick up once again in 2023. In Canada, the Montney play continues to be at the top of the class and stacks up very well against US L48 counterparts on both the gas and liquids fronts. In fact, improved well design and completion efficiencies have resulted in decreased water & proppant usage in the Montney generally. This, in turn, has lowered breakeven margins and has enabled very robust

economics. Unfortunately, with Canada slow in the development of critical egress projects (LNG Canada due in 2026, Woodfibre LNG due in 2028), most of our excess gas continues to flow south to the US.

On the new technology and decarbonisation fronts, Canada (Alberta & Saskatchewan) is leading the globe in carbon capture, utilization and storage (CCUS) initiatives. However, these types of initiatives continue to go unrecognized globally. Despite this, the energy industry marches on with ongoing projects, process improvements, electrification, and innovation as it continues to do its part in helping Canada achieve its goal of Net-Zero by 2050. With federal & provincial level incentives, favourable geology, skilled people, and collaboration & cooperation among all its stakeholders (including governments, industry and academia), Canada boasts a significant amount of potential in all facets of the energy narrative, if channeled correctly and effectively.

In his final comments and according to his organization's overall outlook, Canada's performance to date in 2022 garners passing grades as it continues to play a big role on the global front, has resource plays that compare or outperform other plays in North America, and has second-to-none regulatory & ESG (Environmental, Social & Governance) metrics to navigate & uphold.

SUMMARY

With school out, we give our mid-year grades on a variety of upstream topics. The Russian invasion of Ukraine created turmoil in energy markets. We explore which Canadian companies and plays are positioned to grow. We forecast production growth in both oil and gas despite midpoint capital guidance being below 2019 levels. Will circumstances shake companies' capital discipline? Cost inflation is going to make an impact and we will share our data analysis on which components are coming under the highest pressure. Investor expectations, corporate dynamics and strong prices mean more cash than ever will be returned to shareholders.

Unconventional plays can serve a pivotal role in supplying lower carbon and short cycle molecules. Different bottlenecks will feature in different basins. How do the leading Canadian and US plays compare?

Policy uncertainty is another key factor. Canada looks to balance energy development with its emissions goals and commitments. Policy details are arriving or pending, making long-time investment decisions difficult today.

PRESENTER: *Scott Norlin, Research Analyst, Canada Upstream - Wood Mackenzie Canada Ltd.*

PRESENTER

Scott Norlin

Research Analyst, Canada Upstream
Wood Mackenzie Canada Ltd

Scott joined the Canadian Upstream Research team at Wood Mackenzie in 2019. He is responsible for providing financial asset valuation and objective commercial analysis on company and play activity across Canada. Scott covers a range of

companies across Canada including Tourmaline, Cenovus and ARC Resources. He provides high level company valuation and strategy analysis for corporate coverage of Cenovus Energy.

Prior to joining Wood Mackenzie, Scott gained comprehensive experience in exploration and development of upstream assets. Scott worked at Parex Resources on conventional assets, Devon Energy on the Jackfish oil sands project and has field experience in L48 unconventional plays.

Scott holds a Bachelor of Geology degree with honours from the University of Calgary.

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presented by Scott Norlin - Wood Mackenzie Canada Ltd.

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****pre-registration is mandatory****
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