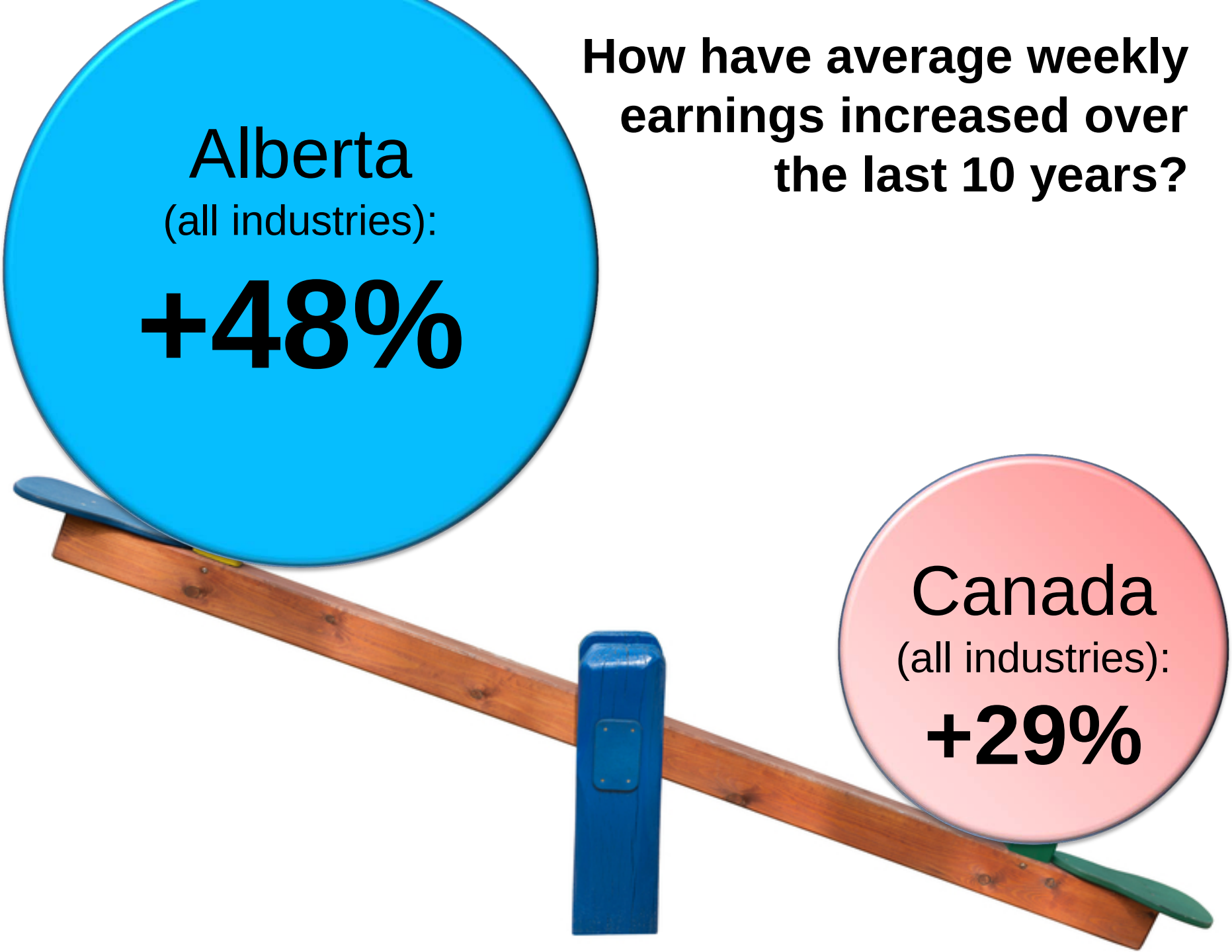
Losing balance, regaining control?

Alberta Economic Forecast for 2016

Todd Hirsch
Chief Economist

ATB Financial™

How have average weekly earnings increased over the last 10 years?



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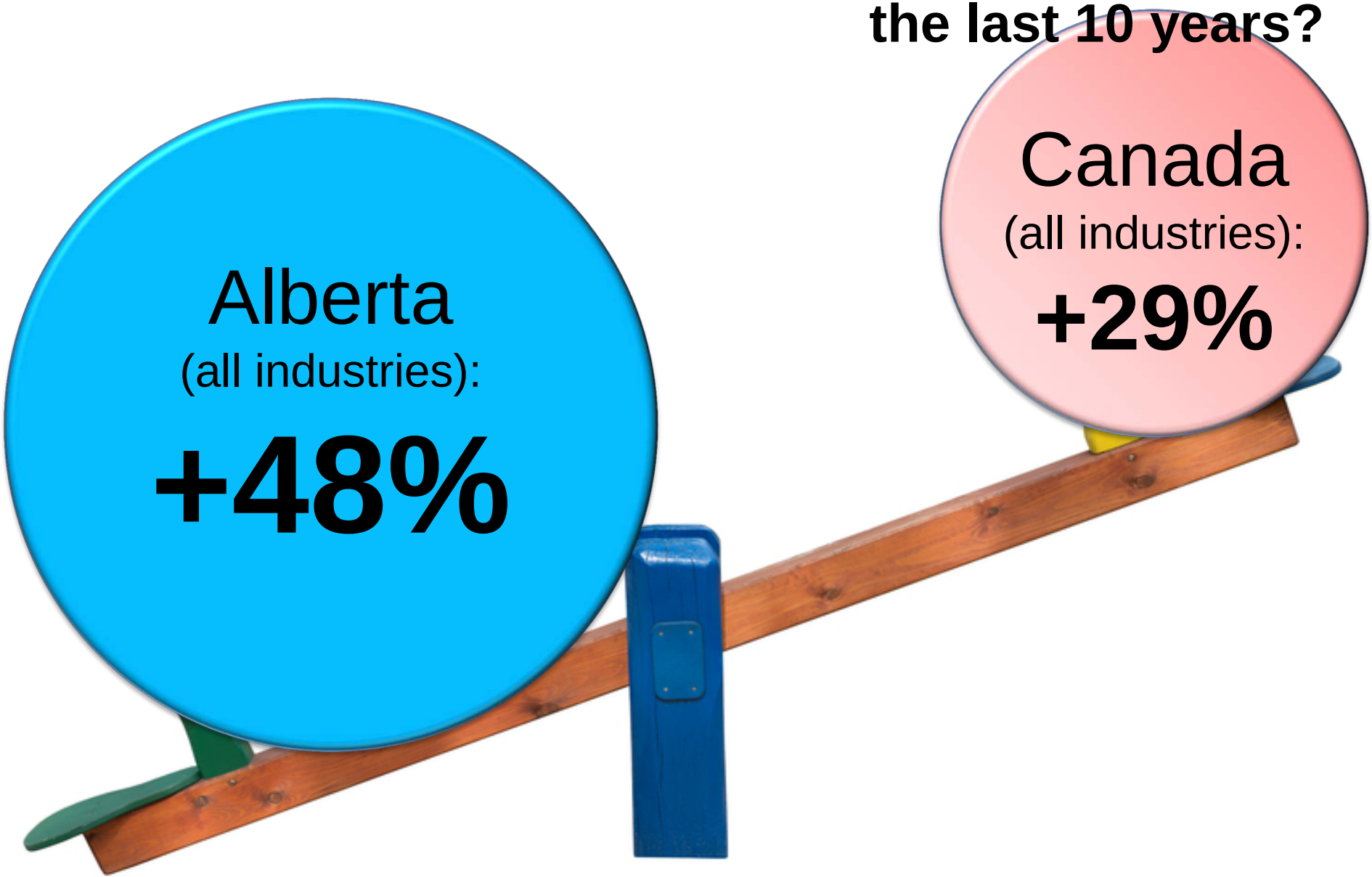

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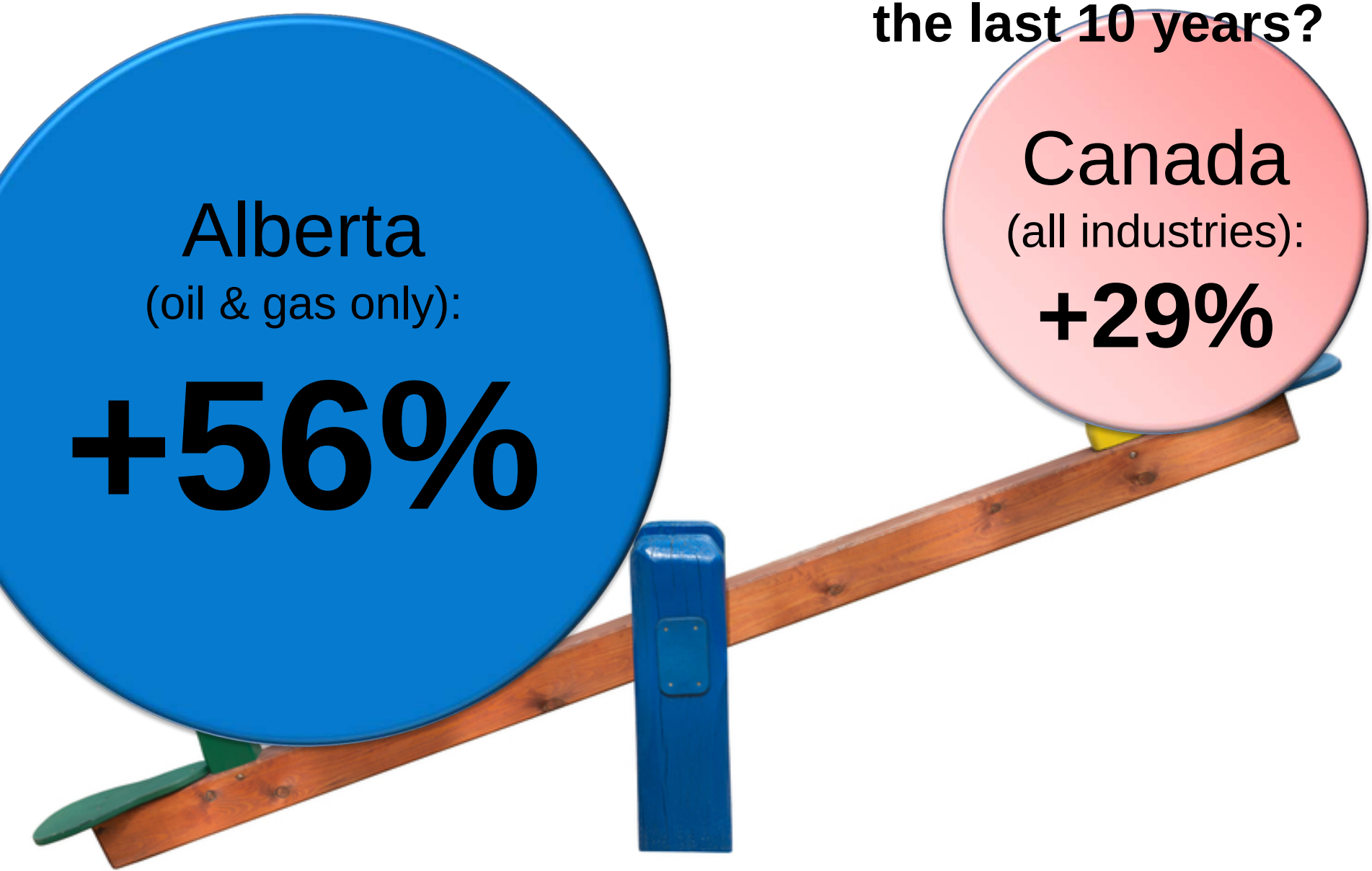
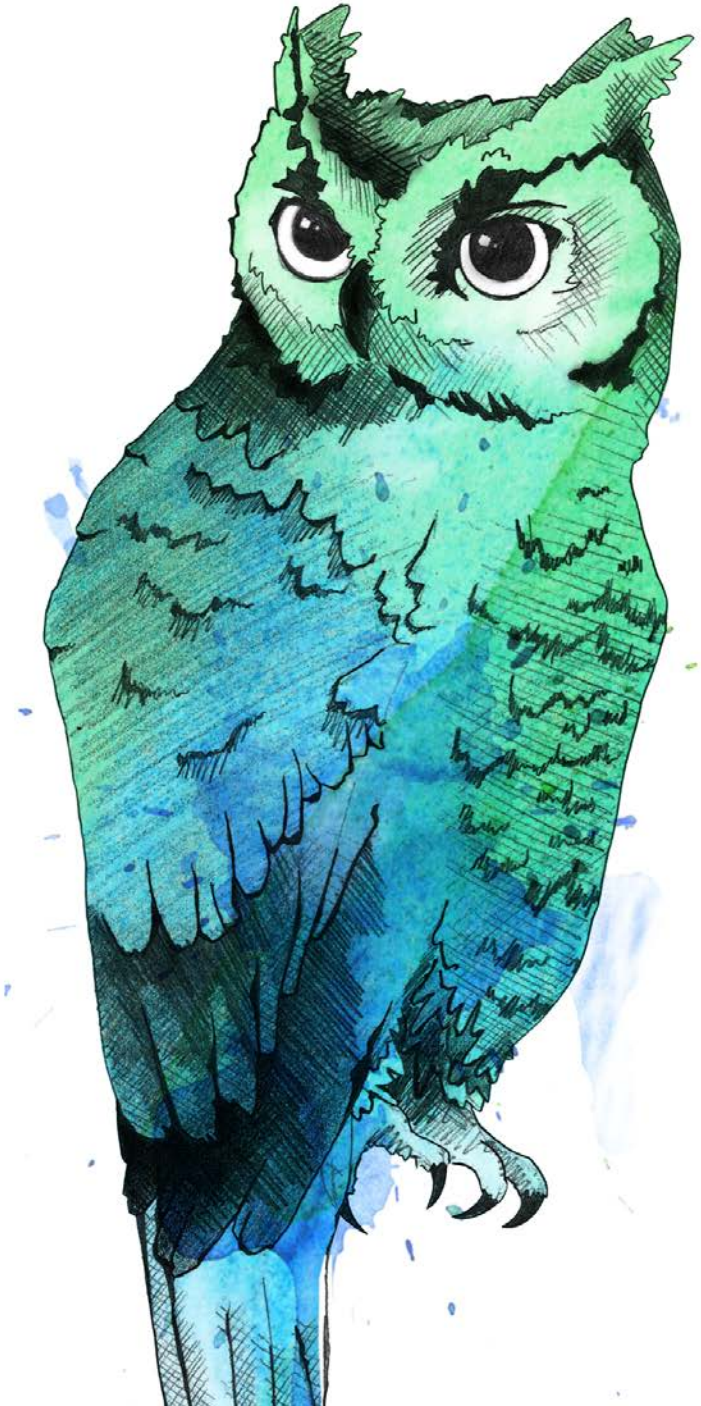


Regaining balance:

- some rebound in oil prices
- rebalancing of wages, bonuses & salaries (and other costs)
- strong performance in other sectors
- low Canadian dollar

When can we expect all of that?

- prob. modest recession in ‘15
- higher unemployment rate
- below average growth in ’16
- return to “normal” in ‘17?



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John McCoach

President,
TSX Venture Exchange

Mr. McCoach's presentation that is being shown at the live event contains data that is not yet authorized for release. We apologize that we are not yet authorized to distribute that portion of the slide deck.

The full presentation will be made available to participants on our website after the breakfast seminar.

www.clseducation.ca

The Canadian Oil & Gas Industry - “I’m Still Standing”

Notes for the IIROC CLS Education Panel Energy Market Seminar by:

Michael J. Tims
Vice Chairman
MATCO Investments Ltd.

Calgary, Alberta
October 8, 2015

Six Song Titles Tell The Story

These brief remarks focus on the present and the future of Canadian oil and gas from here.

I have organized my thoughts around a handful of song titles.

“Here You Come Again” (by Dolly Parton)

- We have seen this type of downturn before.
- The most likely case remains:
  - Current oil price decline is simply a (surprisingly meaningful) cyclical adjustment
  - Half a dozen memorable declines have occurred from 1979 to the present: about two per decade
- We should recover from this decline also, but not necessarily to prior heights
- The chance of major secular energy market change -a permanent switch away from oil and gas- is presently very low.

“Stayin’ Alive” (by the Bee Gees)

- Nonetheless, not yet “out of the woods” as a Canadian (or a global) industry
- Myriad variables are at play (economic, political, social, etc.)
- Marginal cost of production is very key in the short-term
- Total cost of reserves and production are eventually factored into current and future capital expenditure decisions
- Current global oil supply surplus is only a couple of million barrels per day-maybe 3% too much
- Equilibrium always returns, but not always quickly

“Stayin’ Alive” (by the Bee Gees) continued

- Oil sands still form the lion’s share of Canadian **oil** production in the future
- Returns there subdued for now; substantial deferral of new capital spending is logical.
- Natural gas and liquids should command somewhat higher prices over time – maybe not immediately. Important part of the longer-term future.
- Conventional and tight oil in Canada --- a rate of return game; some geological limitations.
- Oilfield services sector – Has too much available capacity; limited pricing power; and lower margins for now. Need more activity.
- Little new to say on the larger Canadian pipeline projects
  - Depend on regulatory approvals, governments and aboriginal groups

“I’m Still Standing” (by Elton John) and “I Will Survive” (by Gloria Gaynor)

- Competitiveness now first revolves around costs of all kinds.
- We all have no choice but to play in the cost-reduction game.
- One important sign for us all is that the oil and gas stocks have essentially gone nowhere for a decade.
- **Better stock markets will follow better industry economics.**

Investors in Canadian Oil & Gas Stocks Have Not Made Money in the Past Decade

“Getting Better” All The Time (The Beatles)

- So how might the oil downturn end?
- Should see the first signs of market recovery in the oil futures market
- Looking for a bottom recently, but not yet assured
- “Two kinds of forecasters: those who don’t know, and those who don’t know they don’t know.”
- Oilfield services, real estate, retail, and government coffers are all being affected too.

“Back in the High Life Again” (by Steve Winwood)

- Three theories or possibilities as to how things will get better:
  1. Playing out the law of supply and demand to a new equilibrium – painful, but effective
     - Adjustments in capital expenditures and production globally to balance supply and demand and find a new equilibrium price
     - Between the current $49 per barrel market price and last year’s (over $100 per barrel) price seems logical.
  2. Geopolitcal turmoil that affects oil supply globally
  3. OPEC decides to relent on its current strategy (admittedly unlikely)

“Back in the High Life Again” (by Steve Winwood) continued

- How does Alberta, and the oil and gas industry, get “back in the high life again”?
- Higher oil prices are the obvious next “plus”; oil pipeline approvals would help costs; LNG projects would help natural gas demand.
- Principal Suggestions:
  - Hyrodocarbons are unlikely to go away any time soon
  - Non-OECD Asia energy demand will most likely grow significantly for years
  - Geopolitical risks and disruptions could drive oil and gas prices up again
  - Little global production growth occurs at today’s $49 oil price or even a $60 price
  - Canadian natural gas has many appealing features, including environmental ones.

“Back in the High Life Again” (by Steve Winwood) continued

- A further boost: Canada remains a great country in so many ways:
- High business principles; industry information; regulation; use of the English language; the rule of law; a modern economy; educated people; safety and security; and a lot of the other things that we all value.

Thank you very much.

Michael Tims

October 8, 2015