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MARK MILNE
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CANADA SHOULD BE WORLD'S CHOICE ENERGY EXPORTER. BUT IT'S NOT

Canada is a world leader in democratic freedom, transparency, environmental protection and worker rights. So why is it not also a world leader—the supplier of choice—to energy markets all over the world, selling more oil and gas to global markets, not less?

Investors may want to steer clear of oilsands developers and coal producers and buy royalty stocks and companies with assets outside Alberta.

In a number of recent third-party reports on social and economic performance, Canada ranks at or very near the top of global rankings in every category. In other words, Canada has some of the best resources— and some of the best human, social and economic policies—but it still has trouble cracking world resource markets.

These days, the real obstacles to export growth come from within Canada. The political quagmire in British Columbia surrounding LNG exports is a case in point.

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While we squabble inside Canada, few countries can claim Canada's level of achievement.

Just last week, a United Nations Sustainable Development Solutions Network report placed Canada fifth of 158 nations based on measures such as life expectancy, per capita incomes and perceptions of corruption

Earlier in April, the Social Progress Index ranked Canada sixth of 133 countries based on 52 indicators such as crime levels, literacy and gender equality.

The Environmental Performance Index is a project of Yale and Columbia Universities that ranks how well countries perform on high-priority environmental issues

in two policy areas: protection of human health from environmental harm and protection of ecosystems. Of 178 nations ranked across the planet for 2014, Canada came in at 24th, ahead of Saudi Arabia at 35th place, Venezuela at 57th, Russia at 73rd, Iran at 83rd, Nigeria 134th and Sudan at 171st. In terms of the top ten oil reserve countries, we

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ranked first. These ten countries hold about 90% of the world's oil.

On press freedom, Canada earned the highest score in North, Central and South America (and 18th out of 180 countries assessed worldwide), according to 2014 World Press Freedom Index compiled by Reporters without Borders. In terms of other oil exporters, Nigeria is 112th, Venezuela at 116th, Russia at 148th, Saudi Arabia ranks 164th, Sudan at 172nd and Iran comes in at 173rd.

For Transparency International's 2014 Corruption Perceptions Index, Canada ranked tenth out of 175 nations worldwide. By contrast, other oil countries rank much lower: Saudi Arabia is 55th, Iran, Russia and Nigeria are tied at 136th, Venezuela comes in at 161st and Sudan is 173rd.

Freedom in the World, the annual Freedom House international survey, reports on 195 countries and 14 related and disputed territories. For 2014, Canada outpaced other oil export nations by a very wide margin. While Canada earned the highest ranking "free", Russia, Saudi Arabia, Iran and Sudan are all in the lowest category "not free". Both Nigeria and Venezuela are ranked in the middle of the pack "partly free."

The World Bank and the International Labour Organization publish a ranking of labour force participation rates for females as a proportion of the population ages 15 and older who are economically active. In other words, the female percentages are based on all people who supply labour for the production of goods and services during a specified period.

While Iran registered 17 percent females in the workforce, Saudi Arabia came in at 20 percent, Sudan reached 31 percent, Nigeria had 48 percent and Venezuela hit 51 percent. Canada's percentage of females in the Canadian workforce is 62 percent. Of other oil producers, only Russia came close with 57 percent.

Over the past 14 years or more, aboriginal companies in the oil sands region have earned more than \$8 billion in revenue. Canada-wide, a number of institutions including TD Bank see First Nations becoming economically stronger in future as a result of resource prosperity. And we know economic strength goes a long way to attracting other benefits that are often difficult to attain.

Further, the continued improvements in government and industry consultations with First Nations over

resources means the situation is far better than some might realize. Is there room for improvement? Yes. Have we come a long way?

Last but not least, the 2014 World Giving Index compiled by Charities Aid Foundation monitors the scope and nature of giving around the world by looking at three aspects of giving behavior: financial contributions to charity, volunteer time to organizations and helping strangers who needed help. Here's how Canada ranked: Of 135 countries across the globe, Canada came in third for giving, while Nigeria was 21st, Iran 43rd, Saudi Arabia 47th, Russia 126th and Venezuela 134th.

Given this astonishingly positive record, is there any doubt that Canada should be the energy supplier of choice, selling more – not less – energy to world markets?

OIL SANDS LAND BECOMES ALBERTA'S HOT REAL ESTATE AS CRUDE REBOUNDS

An indication that crude's recent rally has further to run can be found in the northern forests of Alberta, where companies are paying the most in eight years to lease land for oil sands

d e v e l o p m e n t .

Auctions attracted the highest prices since 2007 in the first four months of the year even as Canadian heavy oil slid below \$30 a barrel, from \$87.23 in June, and producers from Cenovus Energy Inc. to Royal Dutch Shell Plc slashed spending and jobs.

The trend is a sign that companies see the decline to a six-year low in March as temporary. Western Canadian Select crude has bounced back, gaining about 70 percent since March, almost twice as much as U.S. oil futures, amid rising demand for heavy oil from American refiners. Producers are more efficient than before the downturn after companies including Canadian Natural Resources Ltd. cut costs as much as 20 percent.

"Right now it makes a great deal of sense to go in and acquire rights in the oil sands," Trevor Newton, chairman of Strata Oil & Gas Inc., said in a phone interview. "Let's get this now while we can. We are going to get them cheaper."

The province holding most of Canada's crude reserves, the world's third largest, drew an average of \$476.14 per hectare in

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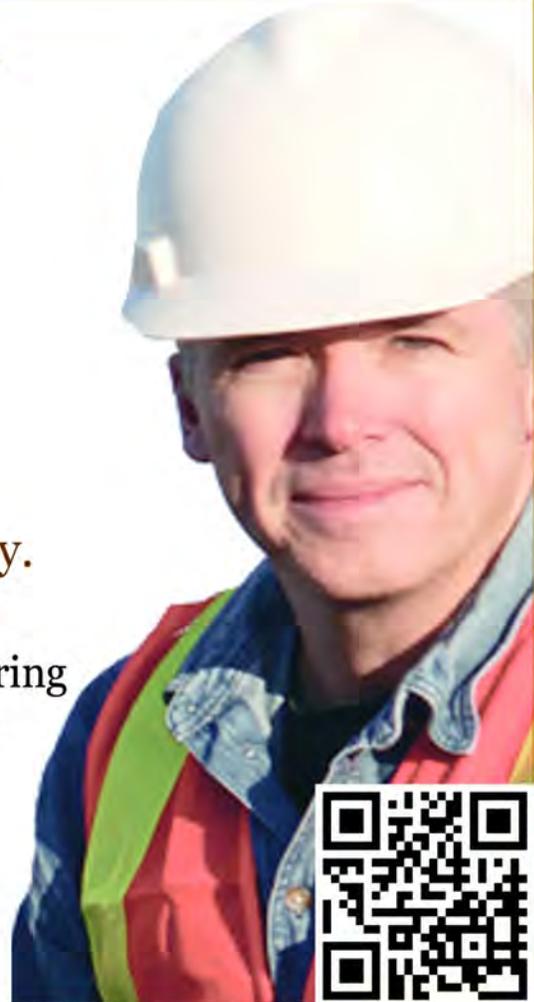
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offerings of rights through April, the most seasonally since 2007, data on the province's website show.

The biggest purchase was by LandSolutions LP, which buys rights on behalf of oil producers. The land company paid \$7,816 a hectare, government data show. The purchase was for carbonate reserves located under Shell's Peace River operations, said Strata's Newton, whose company bid unsuccessfully for the reserves.

The increase in lease prices is a bright spot for Alberta, where revenue from leases and permits fell to \$24.1 million in the fiscal year ended March 31 compared with \$25.1 million a year earlier.

Companies have been pulling back rather than investing. Shell withdrew an application to develop

the Pierre River oil sands mine in February, the same month Cenovus suspended an expansion of its Christina Lake project.

Oil royalties will account for just 7 percent of Alberta's revenues this fiscal year, down from almost 20 percent a year ago, according to the budget released in March. The province's Progressive Conservative government, which increased income and gasoline taxes to help cushion the revenue loss, was swept from office in elections this month after 44 years in power.

Canadian crude's recent strength has been driven by new pipelines delivering rising volumes to U.S. refiners. Plants in the Midwest, the biggest consumers of Canadian crude, ran at their highest seasonal rates since at least 2010 earlier this month, U.S.



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Energy Department data show. Western Canadian Select has risen above \$53 US after closing below \$30 for the first time since February 2009. Its discount to West Texas Intermediate oil, the U.S. benchmark, was \$8 on May 13, the lowest since September 2012. WTI traded at \$59.59 a barrel on Friday, up from \$43.46 in March amid signs that U.S. shale oil producers are curtailing output.

In Alberta, companies can acquire rights to develop oil sands by requesting that an area that isn't already leased be auctioned in a public sale, which happens once or twice a month. They can also buy the rights by individual sale. Oil sands rights acquired by direct purchase fetched an average \$613.59 a hectare in April, the most since June 2012.

"The price they are paying relative to the rights they are securing is very small," Brad Hayes, president of Calgary-based Petrel Robertson Consulting Ltd., said in an interview. "The reserves in place are immense."

Alberta's carbonates may hold 447 billion barrels of oil, making them the world's second-biggest non-conventional reserves, said Newton, whose company has rights to develop carbonate reserves in the Peace River region.

Extracting bitumen from carbonate, sedimentary rock formed from decayed organisms, is experimental because of costs and technical difficulties. Larcina Energy Ltd., one company that produces 1,800 barrels of bitumen a day from carbonate at its Saleski site, sought creditor protection earlier this year after oil's plunge.



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The carbonate reserves under the Shell site hold "billions of barrels" of bitumen, according to Peace River, Alberta-based Strata.

Shell doesn't comment on land sales "for commercial and competitive reasons," Cameron Yost, a spokesman, said in an e-mail. LandSolutions Chief Executive Officer Chad Hughes didn't return a phone call for comment.

"The outlook for oil producers in Canada is good and, if anything, it's much better than for crude producers in the U.S.," Carl Larry, head of oil and gas for Frost & Sullivan LP, said by phone from Texas. "The technology, the management intelligence, the production intelligence, it's there already."

CN HURT BY PLUMMETING OIL SHIPMENTS, MAY MISS GROWTH FORECASTS

Amid a plunge in shipments of oil and frac sand by rail, Canadian National Railway Co. (CNR. TO 0.00%) is casting doubt on its forecasts for growth in its energy-related shipments.

Luc Jobin, CN's chief financial officer, said unless energy-related shipments pick up in the second half of the year, meeting the 2015 forecast of 257,000 carloads will be "challenging" after a drop in oil prices that has prompted producers to slash production and staff.

"It's softer than we expected," Mr. Jobin said at an investors' conference in Boston on Thursday.

CN is not altering its guidance for



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- 7:30 AM Morning Flight Shot Gun Start
- 12:00 PM Afternoon Golf Registration & Luncheon
- 1:00 PM Afternoon Flight Shot Gun Start
- ** Courtesy Rides for Golfers - Sponsored by Baker Hughes**
- 7:00 PM Steak or Lobster Dinner - Sponsored by Gilliss Casing Services
- 11:00 Grounds Closed - Security Sponsored by ARC Resources Ltd.

WEDNESDAY JUNE 3RD, 2015

10:00 AM - 7:00 PM SHOW HOURS

- * 12:00 PM Luncheon Sponsored by Grimes Sales & Service - A Schlumberger Company
- * 12:30 PM Guest Speaker - Hon. Bill Boyd - Minister of the Economy
- * 1:00 PM 2015 Saskatchewan Oil & Gas Recognition Awards Oilman of the Year & Hall of Fame Inductees - Presented by the Board of Governors
- * 7:00 PM Prime Rib Dinner - Sponsored by the City of Weyburn
- * 8:00 PM Opening Ceremonies - Guest Speakers Hon. Ken Krawetz and Mayor Debra Button
- * 8:30 PM SE Sask. Oilman of the Year Awards - Presented by Weyburn Oilshow Board
- * 11:00 PM Grounds Closed Sponsored by ARC Resources Ltd.

THURSDAY JUNE 4TH, 2015

8:00 AM - 3:30 PM SHOW HOURS

- * 7:30 AM - 9:30 AM Barnstorming Breakfast Sponsored by PSAC
- * 10:30 - 11:00 AM - PSAC Information Session by Invitation Only
- * 12:00 PM Industry Luncheon Sponsored by Crescent Point Energy
- * 12:30 PM Industry Guest Speaker - John Gormley - Sponsored by ALCHEM Drilling Fluid Services



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an increase in energy shipments of 40,000 carloads over last year's 217,000, but Mr. Jobin said the company will need to see rising volumes in the third and fourth quarters if it is to hit the target, which was lowered in April.

CN's Calgary-based counterpart, Canadian Pacific Railway Ltd., has said "for now" it is sticking to its energy-products guidance.

Railway stocks have tumbled this year amid the slowdown in crude shipments and tepid growth in other lines. Total overall traffic carried by CN and CP this year on their North American networks is up by 5 per cent compared with the same period last year, according to the Association of American Railroads.

The Dow Jones transportation average has fallen by 6 per cent, while

CN's share price is down 8 per cent. CP's stock price has fallen 4 per cent.

Fadi Chamoun, a Bank of Montreal equities analyst, said several factors are reducing shipping volumes and weighing on railway stocks, including moderating U.S. economic growth; lower demand for coal shipments amid cheap natural gas; weak global demand for export coal; and low oil prices.

CN's shipments of petroleum products have fallen by 26 per cent in the first five weeks of the latest quarter, Royal Bank of Canada analyst Walter Spracklin said.

The decline in prices that has capped energy production and slowed the amount of crude on the rails comes as regulators in Canada and the United States announce new rules designed to reduce the



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frequency and seriousness of explosions after oil-train derailments.

The countries recently harmonized their 2025 phase-out of older, puncture-prone tank cars that carry oil and ethanol. Unlike Canada, however, the United States will require upgraded braking systems by 2023 on trains carrying flammable liquids.

The rules come after the 2013 explosion of an oil train in Lac-Mégantic, Que., that killed 47 people. This year, there have been five oil-train fires in Canada and the United States, including two involving CN.

CN's Mr. Jobin said the company supports the move to better tank cars, but opposes the requirement that locomotives and unit trains be fitted with electronically controlled brakes because of the "complexity and cost" involved.

He said the braking systems would have "little impact" on the outcome of a derailment and that he hopes future talks with the U.S. Department of Transportation will result in changes.

At Calgary's CP, the railway tested electronic brakes on two coal trains in British Columbia for four years beginning in 2008 before abandoning the technology because it was unreliable.

"They had mechanical delays more often than conventional brakes and the delays lasted longer," a company spokesman said.

Meanwhile, the American Petroleum Institute went to court this week to block the U.S. rules on hauling flammable liquids by rail.

The group, whose members include Canadian oil producers Cenovus Energy Inc. and Talisman Energy

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Inc., said in a petition to the U.S. Court of Appeals that the new tank-car and brake rules are "an abuse of discretion, or otherwise not in accordance with law."

EXPERTS WARN EXPANSION OF TRANS MOUNTAIN PIPELINE POSES THREAT TO WHALES

Marine experts in both Canada and the U.S. are raising concerns about the impact of underwater noise on endangered killer whales and other mammals on a shipping route that will become increasingly busy if the Trans Mountain pipeline expansion project proceeds.

A review of the Trans Mountain proposal by the Canadian Science Advisory Secretariat, of

the Department of Fisheries and Oceans, has warned that an increase in tanker traffic associated with the pipeline project "has the potential to result in sensory disturbance to marine mammals from underwater noise, ranging from auditory injury to behavioral disturbance."

And a study by the National Oceanic and Atmospheric Administration, a U.S. agency examining threats to killer whales that use Puget Sound, has underscored the risk with a study that found dolphins and other marine mammals have to work harder to be heard when shipping traffic increases.

"As vocal effort increased, we found that there was a significant increase in metabolic rate," the NOAA researchers wrote.

The NOAA study is not part of the

Trans Mountain review process and was not examining the impact of increased oil-tanker traffic. But its findings are relevant because it concluded that while mammals use only slightly more energy to produce louder vocalizations to be heard over the sound of ships, the impact could be significant if there is a lot of vessel noise over an extended period. That was also a concern of the Canadian report, which was prepared directly in response to the application filed by Trans Mountain Pipeline ULC.

Both studies were released earlier this spring but are taking on increased importance in light of a number of proposed developments around Metro Vancouver – including new or expanded coal, oil, LNG and container terminals – which will all generate large increases in shipping traffic.

Trans Mountain's plan, which is currently under review by the National Energy Board, would twin an existing pipeline, nearly tripling the amount of oil delivered to the Westridge Marine Terminal in Burnaby.

The project, if approved, would lead to an additional 720 tanker transits through B.C. waters each year. The tankers would travel through the southern end of Georgia Strait, passing the Gulf and San Juan Islands, before reaching the open Pacific via Juan de Fuca Strait. The shipping route transects critical habitat for killer whales, sea lions and other species.

"The increase in marine vessel traffic associated with the proposed project has the potential to result

in sensory disturbances to marine mammals from underwater noise, and an increased risk of injury and mortality associated with mammal-vessel strikes," Fisheries and Oceans Canada's report states.

The report is critical of Trans Mountain's application stating it contains "insufficient information" to adequately assess the threats posed both by underwater noise and ship strikes.

"The [Trans Mountain] assessment considers noise from a single project-related ship, without taking into account the additive and cumulative effects of existing noise," Fisheries and Oceans Canada concludes.

INVESTIGATORS CHECKING LEAK ON TRANSCANADA SWEET NATURAL GAS PIPELINE IN ALBERTA

Investigators are checking a breach of a TransCanada Corp. sweet natural gas pipeline in southern Alberta.

National Energy Board spokesman Darin Barter said the gas has been shut off and no one was hurt.

"The release is over. There is no public safety impacts. There is really no environmental impacts," he said Tuesday.

TransCanada said the leak on a section of a branch line was detected Monday at around 10:42 p.m. in a rural area near the South Saskatchewan River – about 15 kilometres north of Medicine Hat.

The company said the nearest home is more than four kilometres away.

"TransCanada's gas control centre detected a reduction in natural gas pressure on its Suffield Lateral line," the company said in a statement.

"This section of 12-inch natural gas pipeline has been safely shut-in and the company's emergency response procedures have been activated."

Details about the cause of the leak and how much gas was vented were not immediately available, but a spokesperson said gas detection equipment confirms conditions for TransCanada

responders remain safe.

"Shippers are currently unable to bring natural gas onto the NGTL system at six receipt points," said TransCanada spokesperson Davis Sheremata in an email just after 1 p.m. "However, other pipeline operations continue to operate as normal and we continue to meet delivery requirements in the area."

TransCanada, the NEB and the Transportation Safety Board are investigating.



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RACHEL NOTLEY REACHING OUT TO ENERGY SECTOR

Encana CEO Doug Suttles offers industry perspective after phone call from premier-designate

Alberta premier-designate Rachel Notley has taken the initiative to reach out to the energy sector since her election win last week.

Doug Suttles, CEO of Calgary-based oil and gas company Encana, said he took a phone call from Notley in recent days.

"The core of the conversation was, let's making sure we talk as you consider alternatives, and if we can support in any way with information or insights, we are happy to provide that," he said. "I've got to believe her biggest challenge at the moment is putting her government together, and it's a bit early to be speculating on policy changes."

The NDP ran on a platform that included an increase in corporate taxes and a review of royalties paid by oil and gas companies. The party's victory has led to concern by the industry.

Some Encana shareholders aired their concerns at the company's annual general meeting in Calgary on Tuesday.

"Certainly what happens in the

oil and gas sector is going to affect people like myself who are not part of the one per cent, but have held shares in Encana for several decades," said Irene Bruzga. She wants the company to do well because she depends on the dividend from her shares to supplement her income in retirement.

Energy sectors CEOs have largely been diplomatic about potential changes from the new government.

"You would almost have to be from another planet not to understand how important oil and gas is to Alberta and Albertans," said Suttles. "You've got to be careful about speculating about what might happen. The important point here is I don't think it's lost on governments or new governments that it is a very competitive market out there."

Suttles said Encana can provide a perspective on operating not only in Alberta, but also in British Columbia and parts of the U.S. He said his conversation with Notley was brief and helped open the lines of communication between the energy sector and the new government.

"Since the election, our government affairs team have talked to members of the NDP ... and essentially said if we can support in any way, such as policy issues, we would be happy to do that," said Suttles.

The company recorded a \$1.7-billion US loss in the first quarter. The figure includes \$1.2 billion US in asset impairments. Encana's operating

earnings were \$9 million US and its cash flow dropped to \$495 million US.

- Encana cuts capital spending plan by \$700M US

- Alberta heavy oil price up almost 80% since March

Earlier this year, the company said it was assuming \$50 US a barrel for the benchmark West Texas Intermediate (WTI) crude. WTI has risen and now sits at about \$60 US a barrel.

"We didn't believe \$100 oil was going to last forever and we don't believe \$50 will last forever," said Suttles to shareholders.

Suttles described 2014 as a "transformational year." The company racked up \$18 billion US in transactions as it shifted away from being a purely natural gas producer.

"It's probably too soon to call it yet on whether or not this strategy is the right one for them," said Tricia Leadbeater, wealth management director with Richardson GMP.

Encana bought a Texas oilfield for \$3.1 billion from Freeport-McMoRan. Purchased Texas-based Athlon Energy for \$7.1 billion and sold its Bighorn assets to Jupiter Resources for \$1.8 billion, among other deals.

TRICAN WELL SERVICE IS CAUSE FOR INVESTOR CONCERN

Investors in debt-heavy fracking specialist Trican Well Service (TCW.TO -13.86%) are

feeling a bit shattered themselves.

The stock has dropped 11% today to trade at \$4.50 after the company posted an EBITDA loss of \$20-million, suspended its dividend and warned that it's in talks to amend lending agreements. Mind you, the shares are still up from \$3.45 at the start of April when oil was still trading under US\$50, more than \$10 below today's level.

Raymond James, which rates Trican stock Underperform, warned that in a scenario where the creditors decide to sell the company's equipment, "the risk to equity holders is real."

National Bank analyst Greg Colman reckons the company "is not trading like it's about to go under but there are real concerns about the balance sheet."

On Commodities (11:30am ET), he said there "might be an opportunity here for more speculative-type investors... if [Trican] are able to get some covenant relief."

However, he's still "cautious on the frackers as a whole because I think we're going to be in an oversupply situation for a couple of years."

joined by the Canadian boss of refining giant Valero Energy (VLO.N 1.25%). Ross Bayus, who runs a 265,000-barrel-day refinery in Quebec City, told us he's itching to get at North American oil brought eastward by the Line 9 pipeline reversal by Enbridge Inc. (ENB.TO -1.3%).

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