

WORLD MARKET TRENDS ENERGY FUTURES WORKSHOP

NEB Ottawa January 2008

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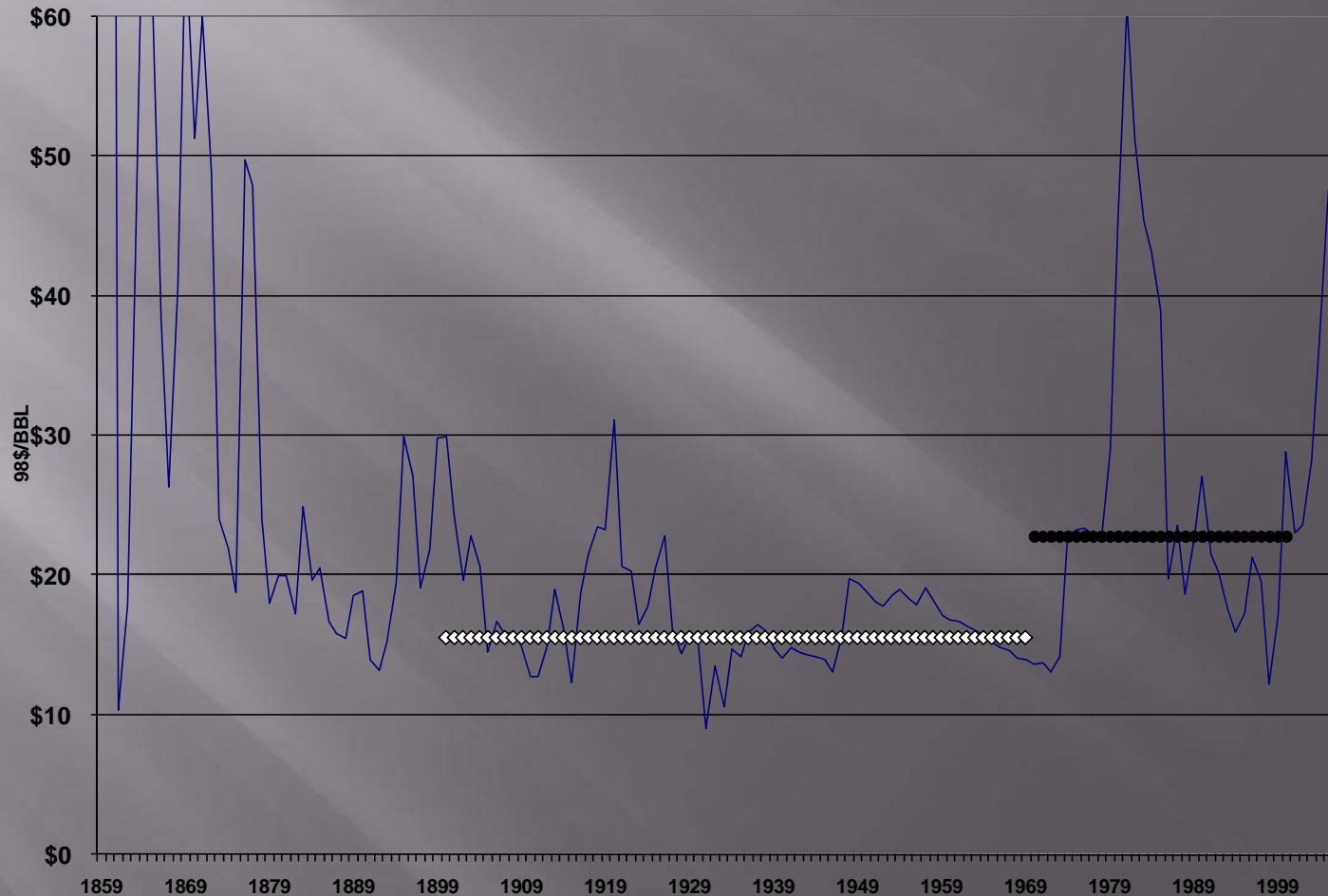
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PRIMARY LESSON: MORE OF THE SAME

- ▣ MORE DEMAND
- ▣ HIGHER PRODUCTION
- ▣ CONTINUED VOLATILITY
- ▣ BUT ALSO REVERSION TO MEAN
 - LOWER PRICES
 - POSSIBLY A CRASH

LONG TERM OIL PRICES

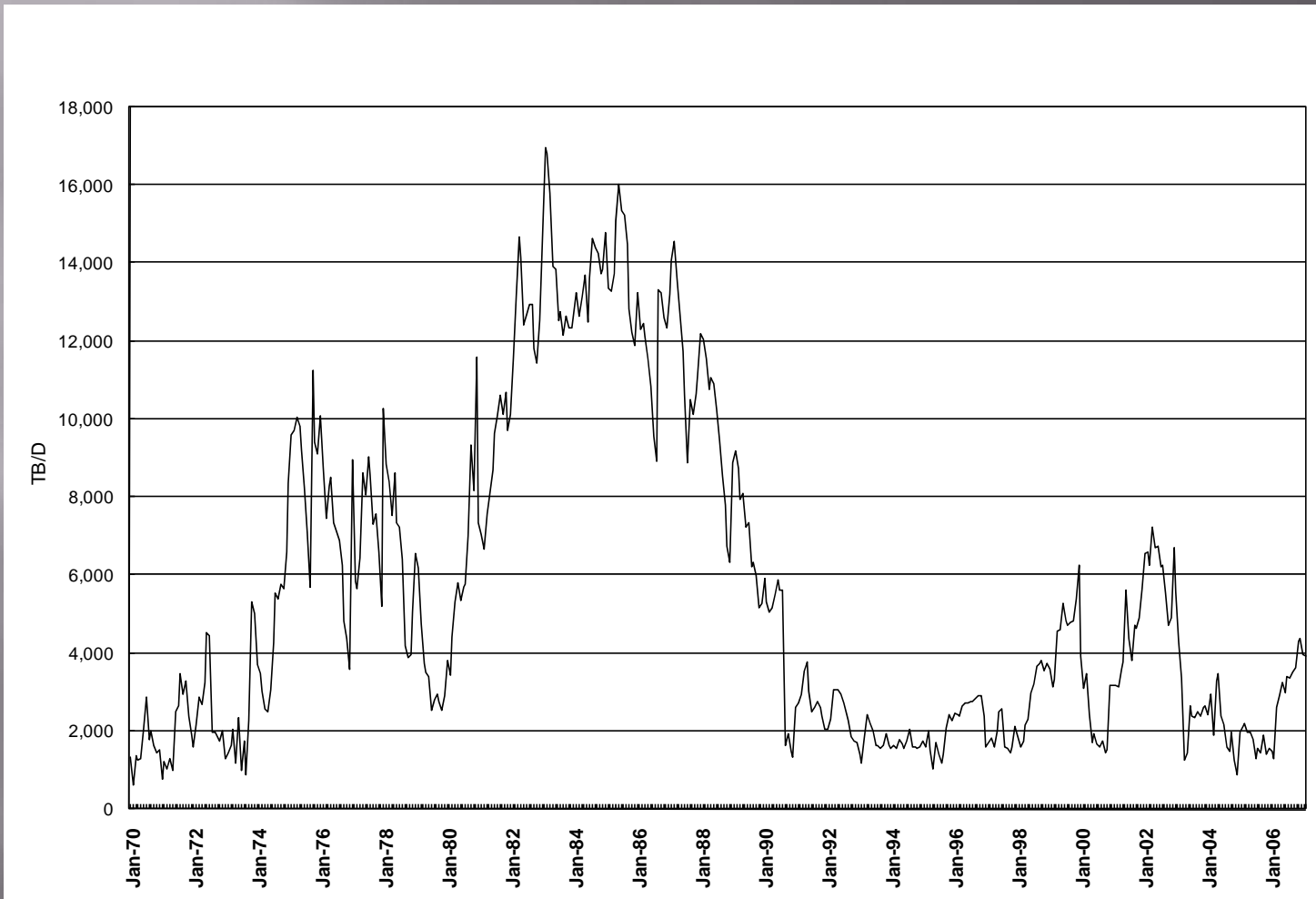


ALL COMMODITIES ARE MEAN REVERTING, ALTHOUGH OIL PRICES HAVE DISPLAYED A HIGHER MEAN SINCE THE ADVENT OF OPEC.

GEOPOLITICS (PROBABILITY VS. AMOUNT)

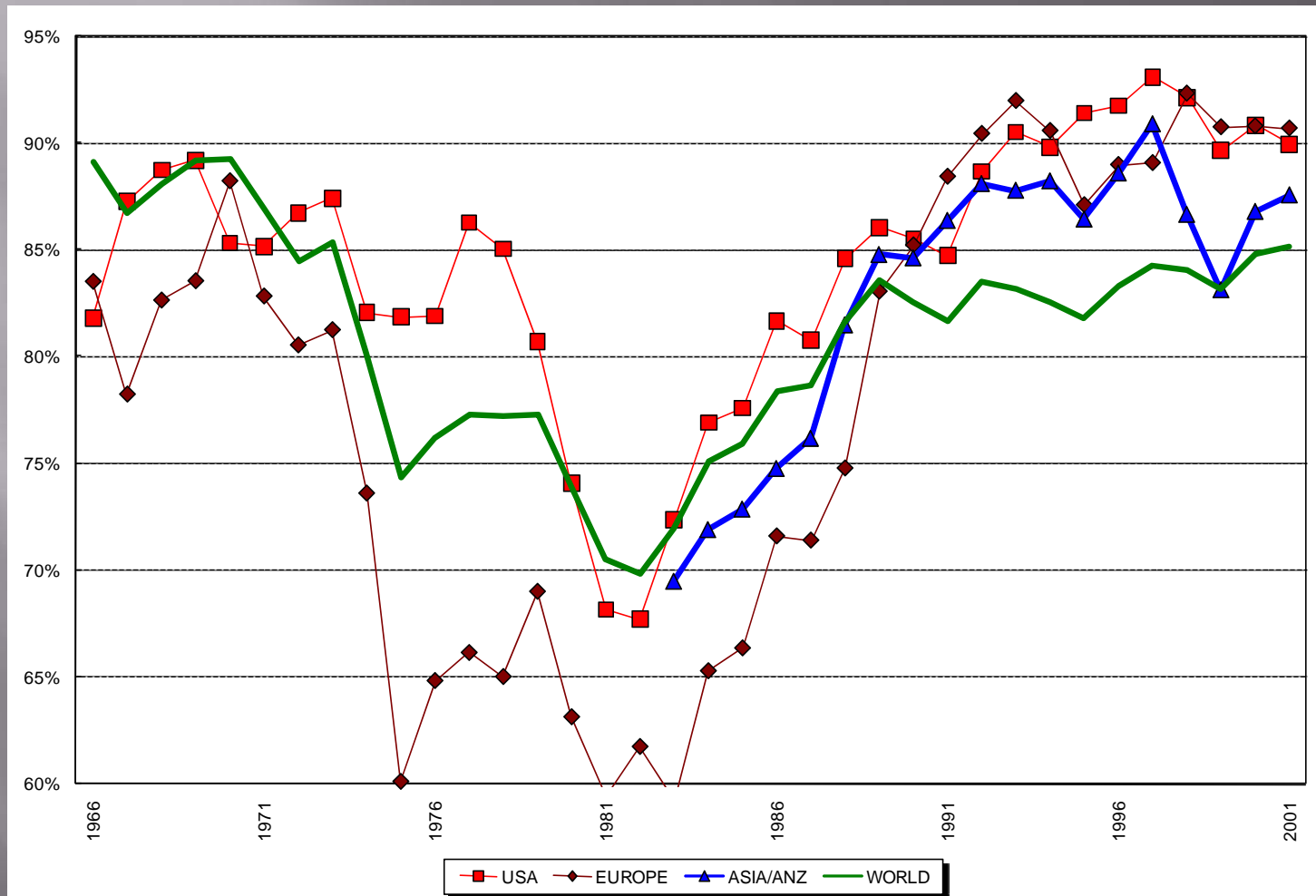
- ▣ MAJOR THREATS: IRAN, IRAQ, NIGERIA, VENEZUELA
- ▣ MINOR THREATS: RUSSIA, CHAD, SUDAN, CASPIAN
- ▣ WORSE THAN ANY TIME SINCE 1980
- ▣ PROBABLY IMPROVE OVER TIME, BUT SLOWLY
- ▣ HIGH CAPACITY UTILIZATION MAKES IT HARDER TO COPE WITH SUPPLY PROBLEMS

OPEC SURPLUS CAPACITY



OPEC SURPLUS CAPACITY WILL NEVER REGAIN LEVELS OF 1980S, BUT IS INCREASING TO ACCEPTABLE LEVELS.

REFINERY CAPACITY UTILIZATION

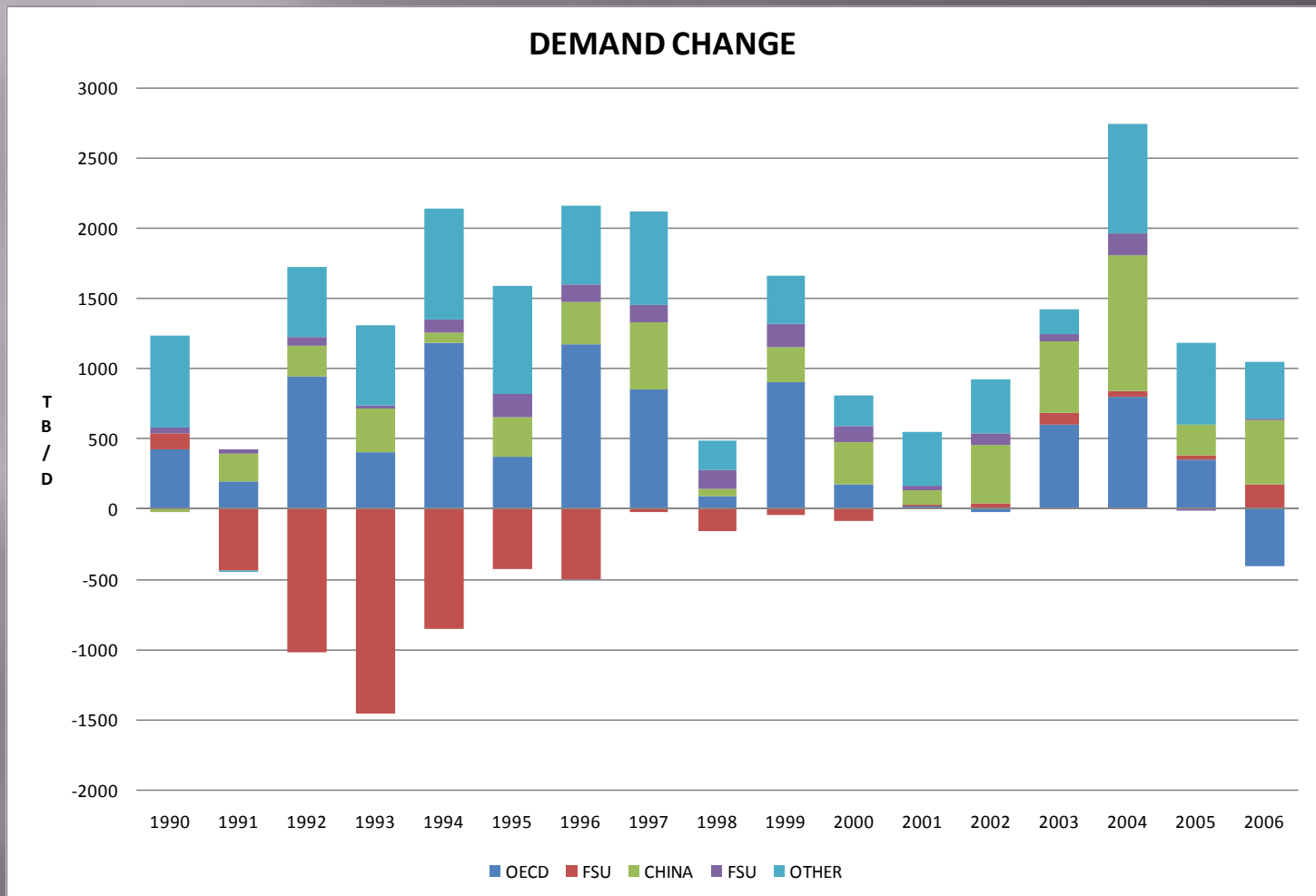


REFINERY UTILIZATION WILL LIKEWISE REMAIN HIGH, MAKING IT HARDER TO COPE WITH LOSSES OF LIGHT CRUDE.

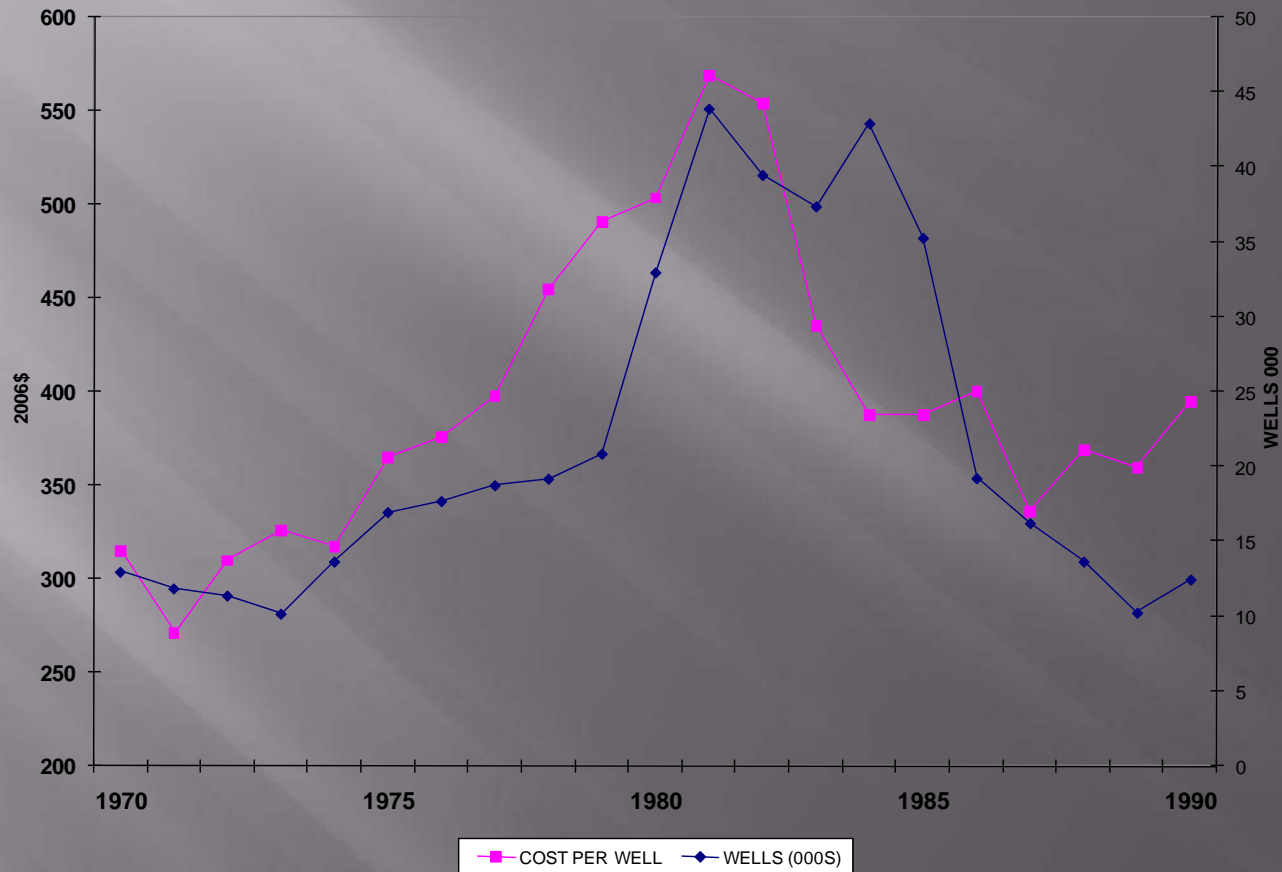
MARKET IS IN A CYCLE

- ▣ ARGUMENTS FOR A NEW PARADIGM ARE FLAWED
 - DEMAND GROWTH HASN'T "BOOMED"
 - ▣ CHINESE AND INDIAN DEMAND HAS GROWN FOR MANY YEARS
 - CAPACITY UTILIZATION HAS OFTEN BEEN TIGHT IN THE PAST DECADE
 - COSTS RISING FOR CYCLICAL REASONS

DEMAND GROWTH NOT NEW



HIGH ACTIVITY LEVELS LEAD TO HIGHER COSTS

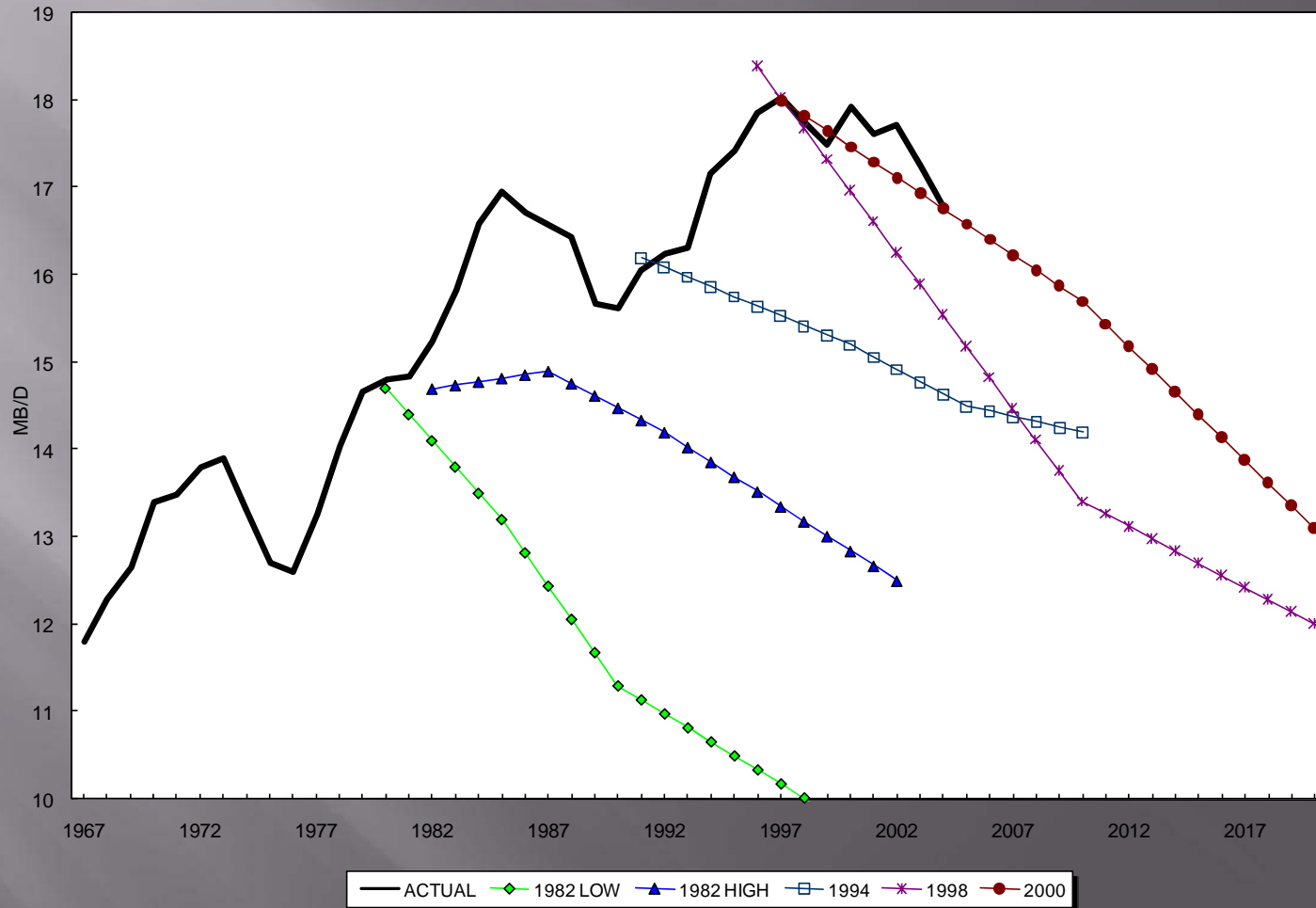


CLOSE CORRELATION BETWEEN THE NUMBER OF WELLS AND THE COST PER WELL. (RECENT DATA MUDDIED BY MORE SOPHISTICATED WELLS.)

CYCLE WILL REVERSE

- ▣ NOT CLEAR WHEN, HOW FAST, OR HOW LOW PRICES WILL GO
- ▣ FORECASTS TEND TO BE MALTHUSIAN
 - EVERY COUNTRY OUTSIDE THE MIDDLE EAST PROJECTED TO PEAK SINCE 1980
 - OPEC MARKET SHARE FORECASTS REPEATEDLY TOO HIGH
 - PRICES ALWAYS EXPECTED TO RISE
- ▣ RESOURCE NATIONALISM IS RELATED TO PRICE
 - LOWER PRICES SHOULD SEE BETTER INVESTMENT CLIMATE

IEA PROJECTIONS FOR OECD OIL SUPPLY



OPEC MARKET SHARE FORECASTS

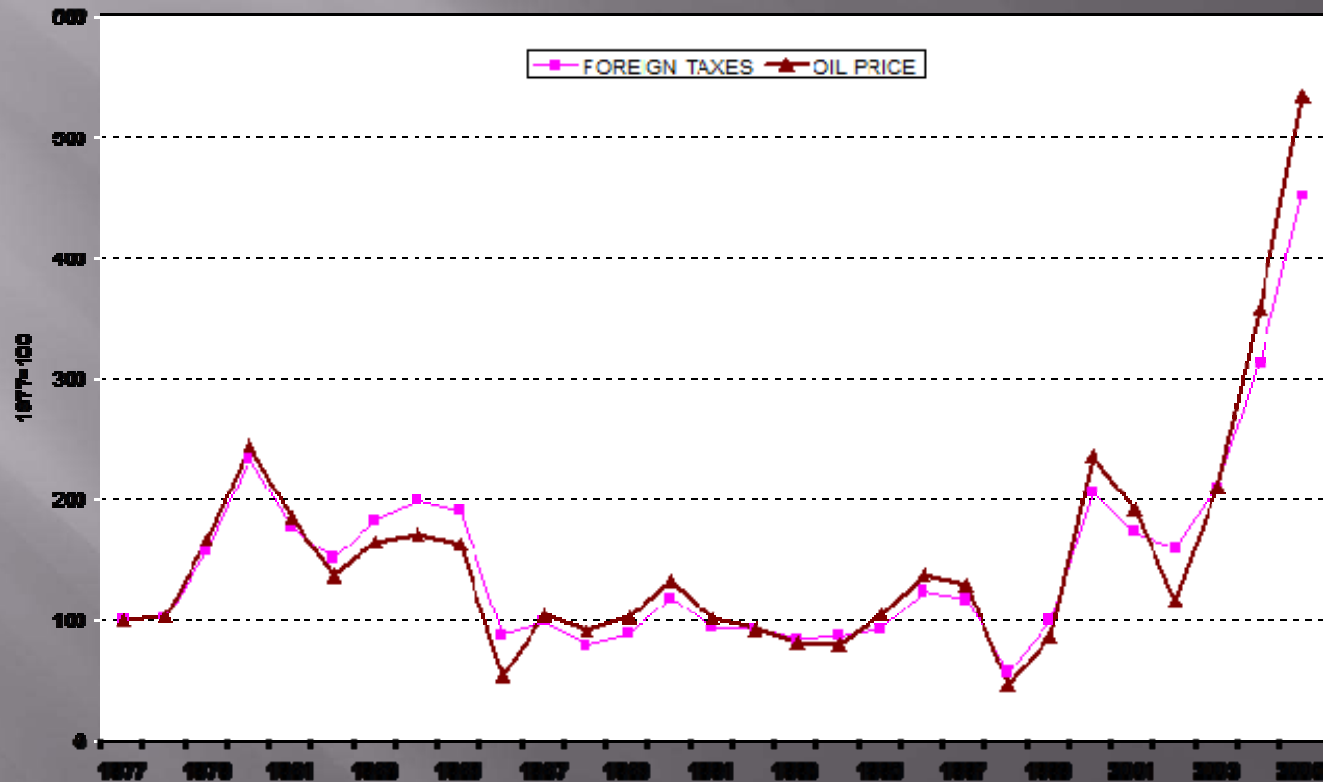
(1996)



NEARLY EVERY FORECAST OF OPEC MARKET SHARE HAS BEEN MUCH TOO 'OPTIMISTIC' FOR 25 YEARS.

TAXES AND PRICES CORRELATE

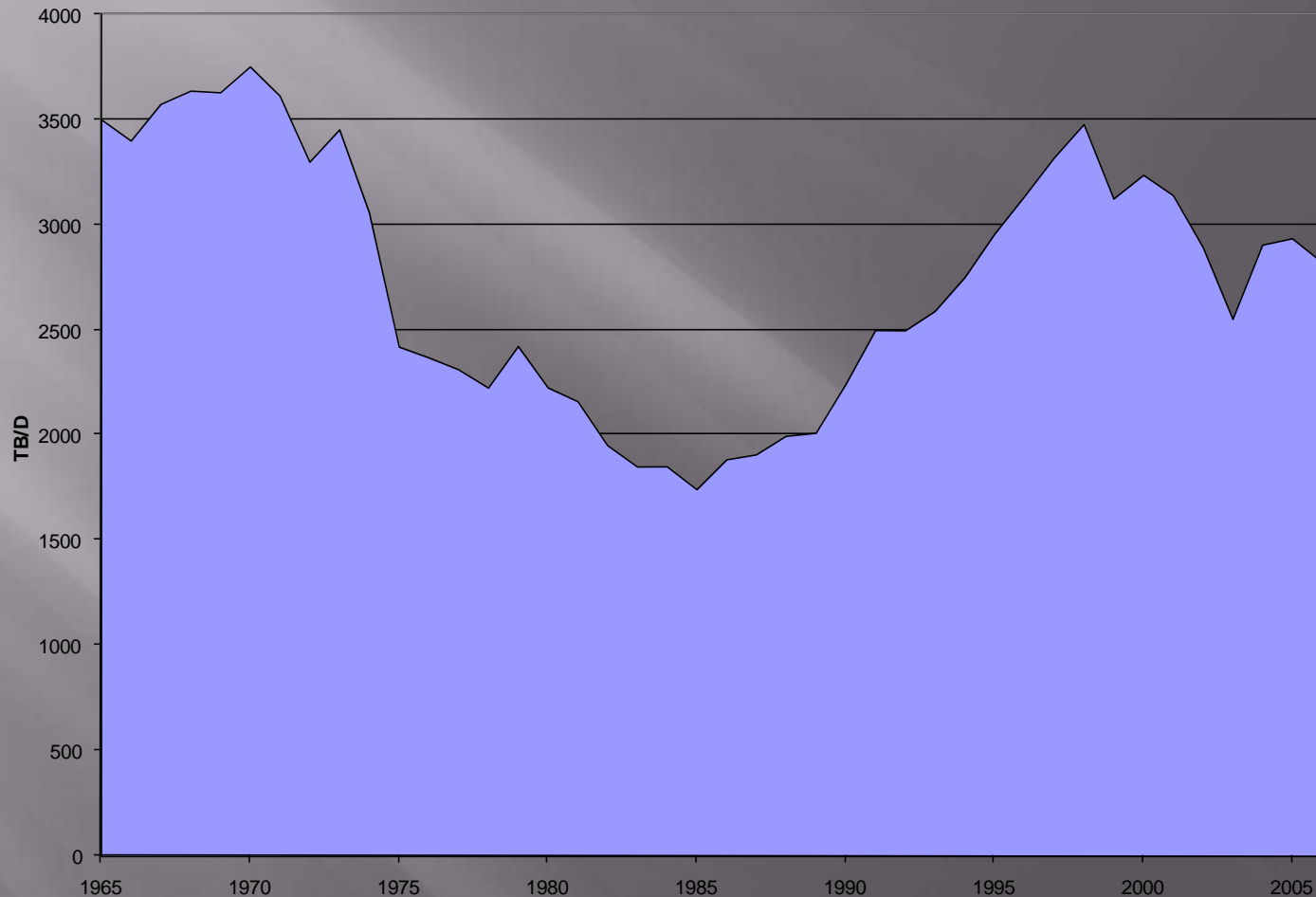
Majors Energy Companies: Oil Prices vs Foreign Taxes 1977-
2004



Source: For Information Practice of Major Energy Producers in 2006 (2006)

WHEN PRICES DROP, SO DO TAXES.

EFFECT OF REFORM



WHEN VENEZUELA BECAME RECEPTIVE TO INVESTMENT,
DOLLARS FLOWED IN, OIL PRODUCTION SOARED

IT IS THE BEST OF TIMES

- ▣ CANADA'S COMPETITIVE STATUS HIGH (IN THE ENERGY RESOURCE SECTOR)
 - LOW POLITICAL RISK, ABUNDANT RESOURCES
- ▣ LOWER PRICES/REVENUE A CERTAINTY
 - EASTERN CANADA BENEFITS, WESTERN LOSES
 - DEMAND LESS RESTRAINED BY PRICE
- ▣ POLITICAL RISK MAY DROP ELSEWHERE
 - BUT GLOBAL RISK CANNOT BE CURTAILED