



CANADIAN NATURAL GAS ENTERING A NEW REALITY

Natural gas is an important commodity for many Canadians. It heats 40 per cent of the homes in Canada and provides eight per cent of our electricity. It makes up 40 per cent of all the energy produced in the country and generates over \$47 billion in export revenue. Canada is the third largest producer of natural gas in the world, after Russia and the United States.

The last few years have been a mixed bag for Canadian natural gas. Deliverability remained fairly consistent until 2008 when it declined due to significantly reduced drilling activity. This trend continued into 2009 and was further exacerbated by the low gas prices and restrictions on capital spending. These low activity levels had not been seen since the early 1990s. High prices in 2008 quickly declined to lows in 2009.

The next few years represent a new reality for natural gas in Canada. There has been a shift in the type of gas that is being extracted, where the gas is coming from and the impact of that gas on the Canadian market. This all marks a new phase for Canadian natural gas; a period that will see prices stabilize, shifts in gas drilling activity and economic changes to the gas market.

Prices Stabilize

Natural gas prices have fluctuated extensively over the past two years

from a high of \$12.69 in June 2008 to \$2.93 in September 2009 (the prices listed are Henry Hub which is the benchmark for natural gas in North America). The recession, which began in 2008, caused a drop in natural gas demand, particularly in industrial uses. At the same time, production in the U.S. continued to increase and the gas market became oversupplied.

Looking ahead through to 2012, gas prices are expected to recover and settle between \$5.50 million British thermal units (MMBtu) in 2010 to \$6.00 in 2011 and \$6.75 in 2012.

Unconventional Gas Gaining Ground

In Canada, 90 per cent of the gas that is produced is classified as conventional, meaning the gas is found in concentrated "pockets" within underground rocks and is relatively easy to produce. However, this type of gas in Canada is getting more difficult to find and production is declining as more unconventional gas sources are now being developed.

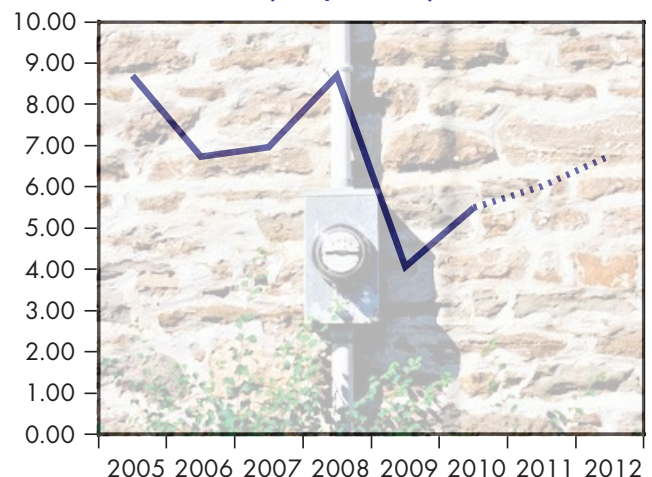
Tight gas and unconventional gas, including coalbed methane and shale gas, is gas that isn't

located in easily accessible pockets but is found in little seams and rock formations that need to be broken in order for the gas to be released and extracted from the ground. Recovering unconventional and tight gas uses new technology that is currently more expensive and requires more time to extract the gas from the ground.

Despite these barriers, tight gas and unconventional gas resources in Canada is growing, particularly in two key geological areas: Montney and Horn River located in northeast British Columbia. Over 210 wells could be drilled in Montney and 70 wells in Horn River in 2010 alone which will increase deliverability in those areas significantly.

As development of these resources increase and other conventional resources decline, there is a shift of natural gas production from Alberta

Henry Hub Average Price (US\$/MMBtu)



to B.C. Alberta's gas production is expected to decline from 12.7 to 8.5 billion cubic feet per day (Bcf/d). B.C. on the other hand will increase from 2.7 to 3.7 Bcf/d. If developments of shale gas accelerate in the Duvernay area, Alberta may gain back some of that loss.

The phenomenon of unconventional gas is not unique to Canada. Across the United States production from unconventional sources has increased significantly in recent years. This increased supply as well as the economic slowdown has helped to reduce natural gas prices across North America.

But all is not rosey in the gas world. With oil prices increasing more quickly than gas in 2009, drilling

before producing some of the known resources. Producers are focusing on the relative economics of the various North American production regions in deciding where to invest.

Although Canada's drilling activity will increase, overall natural gas production is expected to decline through to 2012. In 2009, deliverability was 15.1 Bcf/d but that will drop to 13.0 Bcf/d. This is because there has been lower activity in the last few years compared with activity earlier in the decade. Canadians need not worry – there is enough production to meet Canada's needs.

As Canadian consumption increases and deliverability declines, net gas exports to the United States are likely to fall as the country increases its own domestic production.

Capital spending and employment in the gas sector will stabilize and then increase slightly over the next few years. Drilling days, which replaces number of wells as the new labour indicator in the sector, will increase 11 per cent from 45,659 days in 2010 to 50,512 in 2012.

Compared to 2009, this means more jobs for workers in the gas sector despite the decrease in number of wells being drilled. This is because unconventional gas and tight gas wells require more drill and service days compared to more traditional natural gas wells.

For more details on natural gas deliverability, please see the National Energy Board's energy market assessment report *Short-term Canadian Natural Gas Deliverability 2010-2012*.



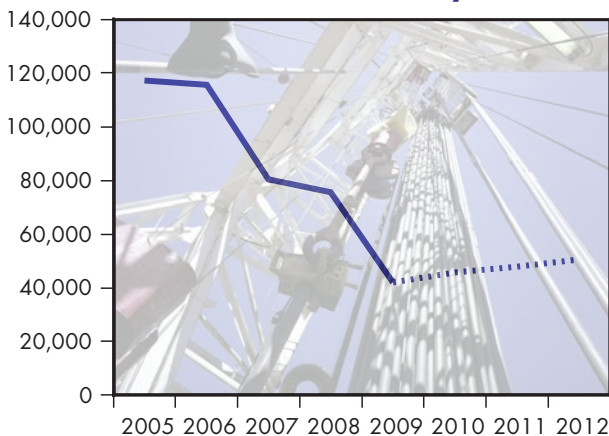
The National Energy Board monitors the Canadian supply and demand scenarios for all energy commodities including oil, natural gas, natural gas liquids and electricity.



For more information, go to the Energy Reports section on the National Energy Board website at www.neb-one.gc.ca



Gas-Intent Drill Days



for oil has become more profitable. Some of the new technology that has been developed to extract shale gas is actually being used for oil in areas of Alberta and Saskatchewan. Whereas gas used to receive most of the industry's capital investment, oil is now drawing some investment away from gas.

Demand Driving Supply

The North American market has more than enough supply of gas and as a result, producers are now waiting for demand to increase and prices to rise