



STATE OF THE INDUSTRY REPORT

June 2023

A STRONG ENERGY SERVICE INDUSTRY
IN THE EVOLVING GLOBAL ENERGY MIX

Prepared by Garrison Strategy



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STRATEGY

EXECUTIVE SUMMARY

For over 40 years, Enserva (formerly PSAC) has championed advancing responsible development of Canadian energy and has provided its Canadian Drilling Activity Forecast to its membership, members of the petroleum industry and other interested parties. This State of the Industry Report provides an outlook for the sector in 2023 and sets the stage for our more detailed 2024 industry forecast report to be released in Fall 2023 with data ranging from drilling, to pressure pumping and more.

Global Energy Outlook

Supply and Demand

- The International Energy Agency (IEA) is forecasting “global oil demand to reach a record 102 million barrels per day” in 2023. Natural gas production levels are also expected to remain near historic highs, with production at 4.13 billions of cubic metres (bcm).
- In the face of an evolving energy mix, oil and natural gas supply is expected to increase by 7.7 per cent and 2.7 per cent by 2050.

Security of Supply

- Energy security will continue to be a factor in 2023 as the Russian invasion of Ukraine continues to create geopolitical supply and demand disruptions. Russian oil and gas is being displaced in the EU, and fast-growing countries in Southeast Asia have a significant demand for energy long-term.
- Not only does this present an opportunity for Canada, but also an obligation, as there are significant global geopolitical ramifications if Russia is able to build stronger energy trade linkages into growing Asian markets on a long-term basis.

Decarbonization and the Evolving Energy Mix

- The global post-Covid recovery and invasion of Ukraine have highlighted that meeting global energy demand, security of supply, and affordability objectives are paramount priorities in the near-term, while countries have ambitious decarbonization targets and ESG performance objectives to meet long-term energy plans. Canada’s oil and gas producers are well-positioned in this regard, as Canada ranks as a leading ESG performer among all major oil producing countries.

Canadian Industry Outlook

The outlook for the Canadian oil and gas industry is very favourable for 2023.

Pricing

- Prices for Canadian producers have proven very strong in 2022. In fact, oil and gas prices were at their highest point since 2008. While gas prices are expected to be subdued to close out 2023, all 2024 private sector forecasts predict a return to stronger prices.

Inflation

- Inflation and supply chain constraints have been cost driving factors confronting the industry in recent years. However, with a global focus of central banks on reducing inflation, industry cost inflation appears to have peaked in mid-2022, and has been receding since.

Capital Investment

- With strong global demand and prices, companies are expected to increase their capital spending in 2023. The Canadian Association of Petroleum Producers is forecasting an overall 11 per cent increase in upstream capital spending relative to 2022.
- The ARC Energy Research Institute estimates the upstream reinvestment ratio at .46, which is the highest level since 2020.

Canadian Drilling Forecast

The outlook for the Canadian oil and gas industry is very favourable for 2023.

- Given the strong fundamentals, western Canadian drilling activity will increase in 2023.
 - Total wells drilled will increase from 5,500 in 2022 to 6,180 in 2023.
 - Total metres drilled will increase from 17.5 million in 2022 to 20 million in 2023.
- Alberta is expected to see the most significant increase in drilling activity due to the significant increase in capital expenditures expected in the province. Most of the activity will occur in the Montney, Clearwater, McMurray, Mannville, Cardium, Spirit River and Duvernay plays.
- In Saskatchewan, most activity will occur in the Viking region, followed by Bakken, Midale and Shaunavon.
- BC could see a sizeable increase in drilling activity. Incremental drilling associated with LNG build out and the Government of British Columbia's agreement with the Blueberry River First Nation has enabled oil and gas activity to resume in the region where significant activity has been planned.

Employment Forecast

The outlook for the Canadian oil and gas industry is very favourable for 2023.

- Service companies expect to see labour pressures alleviate in 2023 due to higher in-migration from other areas of the country, improved workforce planning and better cost management.
- Looking to the balance of 2023, service sector employment could conservatively grow by as much as 4,000 year over year.

Emergent Issues and Trends

While there will continue to be a meaningful (and growing) role for oil and gas in the long-term energy mix, clearly clean energy demand and corresponding mineral requirements globally are going to increase with the evolving energy mix, and North American governments are responding accordingly.

- The U.S. introduced the most significant and comprehensive incentives to encourage investment in clean technology through its Inflation Reduction Act.
- The 2023 Canadian federal budget introduced a number of new measures that align with the Federal Government's recent strategies that seek to position the country favourably in the development of Canada's resources to meet the future global energy needs, including the 2030 Emissions Reduction Plan, Federal Hydrogen Strategy and the Canadian Critical Minerals Strategy.
- Alberta, Saskatchewan and BC have developed policies of their own in relation to emissions reduction, hydrogen and critical minerals, some of which integrate with the federal approach.

Enserva members are aptly positioned to take advantage of opportunities to support the development of the evolving energy mix in Canada.

- Upstream companies plan to invest substantially in carbon reduction technologies and infrastructure, and service companies will be able to apply their expertise and synergistic industry structure to the development of hydrogen and critical minerals as these industries advance.
- The key will be to ensure Enserva members can take advantage of these opportunities through enabling government policies that create the right conditions to invest.

Summary

- The 2023 outlook for Enserva members is encouraging. Global energy demand is strong, oil and gas prices are favourable, inflation and labour shortages are on the decline, and capital investment is on the rise. The industry is also aptly positioned to take advantage of opportunities created by Canadian governments to participate in the evolving global energy mix.

