ENSERVA™

STATE OF THE INDUSTRY REPORT

Fall 2024-2025

CANADIAN INDUSTRY EVOLVES TO MEET GROWING CAPITAL INVESTMENT AND GLOBAL DEMAND

Prepared by Garrison Strategy
November 2024

GARRISON STRATEGY

TABLE OF CONTENTS

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

For over 40 years, Enserva has championed 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 builds off our 2023 State of the Industry Report to provide an updated and detailed drilling forecast and outlook for the sector for 2024 and 2025.

The outlook for Canada's upstream oil and gas industry and drilling service sector is favourable. Export capacity is expected to grow, and both investment and drilling activity are expected to increase during the forecast period.

GLOBAL ENERGY OUTLOOK

- Global energy demand growth is expected to slow in 2024 and 2025. In its September 2024 update, the International Energy Agency (IEA) forecasted 2024 global oil demand to increase by 900 kb/d in 2024 and 950 kb/d next year, which is "dramatically lower than the growth of 2.3 mb/d recorded in 2023." Much of this slowdown in growth is due to slower demand in China.

- For natural gas, according to the IEA, "global demand is forecast to increase by 2.5% in 2024, primarily driven by fast-growing Asian markets." However, geopolitical instability represents the greatest risk, particularly in Europe, and security of supply will continue to be a key aspect of government energy policies.

- Capital investment has been strong, with S&P Global indicating that "upstream investment expanded by 12% in 2023 and is expected to grow by 5% in 2024... [needing to] increase to $738 billion annually by 2030 to ensure adequate supplies."

CANADIAN INDUSTRY OUTLOOK

The outlook for the Canadian oil and gas industry is generally favourable for 2024-25. However, the prospects differ depending on the product.

Pricing

- From an oil perspective, with the Trans Mountain Pipeline now onstream since May 2024, the WTI-WCS differentials have narrowed, with a long-term expectation that they could remain in the $10-$11 range going forward. Correspondingly, oil prices are expected to remain resilient, with 2024-25 WCS prices generally being revised upwards by the major forecasting agencies. The median WCS price forecast is $86/bbl (CAD) for 2025.

- Near term North American gas markets are less robust, with price forecasts generally being revised downwards in 2024 and 2025. A mild 2023/24 winter contributed to a large storage surplus, which has weighed on prices and increased US exports. That said, the market may begin to tighten in 2025 as LNG feedstock demand increases with the startup of LNG Canada in mid-2025, but there will likely be storage surplus entering the year that will dampen prices. The median AECO price forecast is $ 3.1/Mmbtu (CAD) in 2025.

Inflation

- Despite a general trend towards lower interest rates in 2024, inflation continues to be well in hand for the upstream oil and gas industry. The Canadian energy and petroleum producer price index peaked in mid-2022 and has been receding since. As of July 2024, the index has largely converged with the total industrial product price index.

Capital Investment

- The upstream industry investment profile has been positive in 2024. Through Q2 of 2024, industry capital spending increased by 10% on a year over year basis. This is consistent with 2024 company guidance, which generally predict an increase in capital expenditures. We now anticipate that 2024 capital expenditures will increase by approximately 9% relative to 2023. In 2025, we predict more muted growth of 1% year over year–this will be distributed differently depending on the region.

- Oil Sands companies have been disciplined with their capital expenditures. All major producers have been focusing on achieving debt targets and returning free cash flow to shareholders. Investments have been measured, with a focus on debottlenecking, optimization, efficiency enhancements and strategic expansions in this context. We expect oil sands capital expenditures to continue to be in the $13 billion range through 2025, with an expectation of continued production increases over time (~180kb/d by 2028), with TMX reaching capacity by the end of the decade.

- The outlook for Alberta non-oil sands will continue to remain favourable, but slightly subdued, with producers generally indicating moderate capital expenditure growth. Key producers include Veren, Paramount, CNRL, Tamarack Valley, ARC, Ovintiv, and NuVista. Key priority plays include the Montney, Clearwater, Cardium, and Duvernay.

- British Columbia is expected to exhibit continued strong investment. While prices have been challenging, drilling activity continues to be strong in anticipation of LNG Canada becoming operational. Companies such as Tourmaline, CNRL, ARC, ConocoPhillips, and Ovintiv are expected to increase drilling activity in 2024-25. This is complementary to the activity of LNG-linked producers, including Shell, Petronas, Petrochina, and Mitsubishi. Overall, 2024 is expected to be a robust year in BC, and 2025 should be comparable.

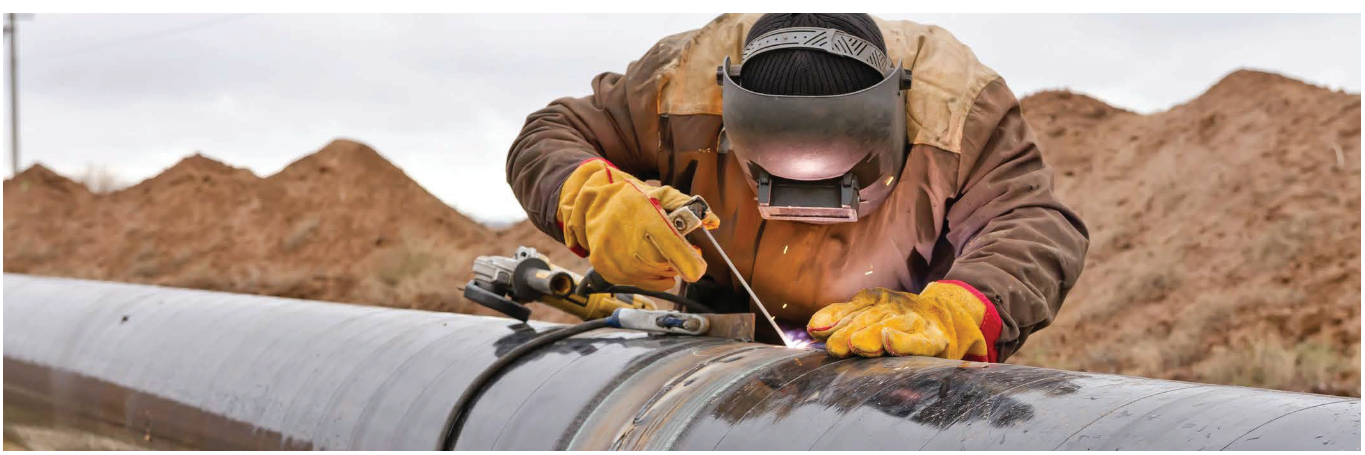
- Saskatchewan activity has generally been increasing over time, as the province boasts a favourable royalty regime and investment climate. Top plays include the Viking, Bakken, and Frobisher. Key Saskatchewan producers that have all indicated higher 2024 guidance include Saturn, Whitecap, Strathcona and Baytex. We expect Saskatchewan to continue to attract consistent capital investment of approximately $3.3 billion through 2024-25.

- We anticipate lower capital expenditures in Atlantic Canada after 2024. None of the major projects (i.e. West White Rose, Terra Nova, Bay Du Nord) are expected to draw significant capital in 2025.

DRILLING FORECAST

With inflation moderated and positive capital expenditure growth, we anticipate increases in the number of wells drilled through 2024 and 2025. While drilling activity generally corresponds to the capital expenditure increases, well efficiency and meterage also play a role.

- The total number of rig release wells are expected to increase from 5,430 in 2023, to 5,720 in 2024 and 5,881 in 2025. BC and Saskatchewan will see the most growth, while the number of wells in Alberta will grow at a slower pace (2% in 2024 and 3% in 2025).
    - In Alberta and BC, the Montney, Clearwater, McMurray, Cardium, and Duvernay are expected to be the top play in 2024-25. Over 60% of well activity occurs in these plays, and this trend is largely expected to remain consistent into 2025.
    - In Saskatchewan, the Viking, Frobisher, Bakken, and Midale Beds have historically been the top plays and are likely to continue to be so. The Mississippian, Triassic, and Devonian are the top plays in Manitoba.
    - Tourmaline, Petronas, Ovintiv, Shell, and ARC are most prevalent operators in the BC Montney, while ARC, Ovintiv, NuVista, CNRL, and Veren are most prevalent in the AB Montney. Spur, Headwater, Tamarack Valley, and CNRL lead activity in the Clearwater. Bonterra, Yangarra, Obsidian, Whitecap, and Inplay are the most present in the Cardium. Chevron, Veren, Artis, and Paramount are notable in the Duvernay. Teine, Baytex, and Whitecap lead activity in the SK Viking.
- Meterage per well has been increasing over time. This is most notable in British Columbia, where the average metres per well increased 4% in 2022 and 2023.
- Total meterage is expected to increase from 18.1 million in 2023 to 19.4 million in 2024 and 20.4 million in 2025.
    - In Alberta and BC, depth has been consistently increasing in the Clearwater, Montney, Viking, Duvernay, and Charlie Lake plays over time.
    - In Saskatchewan, well depth has been consistently increasing in Viking, Frobisher, Lower Shaunavon, and Midale Beds.



PRESSURE PUMPING

- The top pressure pumping plays in Canada are the Montney, Spirit River, Duvernay and Cardium. The Montney is expected to see the greatest increase in rig demand throughout the forecast period.
- Hydraulic horsepower demand is expected to increase over time, dominated by Montney demand.
- While companies have been cautious to avoid over-building capacity, some have added additional capacity in 2024.
- Proppant demand is expected to grow in the near term driven by demand in Montney and Duvernay.

CLOSURE AND RECLAMATION

Closure and reclamation expenditures have been on the rise in western Canada, with governments increasingly focused on companies cleaning up their environmental liabilities.

- In Alberta, the AER inventory reduction program is set at $700 million in 2023 and 2024 and will increase to $750 million in 2025. It is anticipated that Alberta companies will meet these expenditure requirements ($811M in 2024), but the number of abandoned wells and reclamation certifications will decline per dollar invested, as companies will be moving towards higher cost areas of their inventory, as lower cost options are being exhausted.
- In BC, we expect to see a continued increase in abandonment and reclamation expenditures in 2024 ($53M). BC tends to be more expensive than Alberta on a per unit basis due to the less accessible nature of the locations of dormant sites.
- In Saskatchewan, abandonment and reclamation expenditures to continue keep pace with industry activity and should reach $168M in 2024.

EMPLOYMENT FORECAST

Enserva members have struggled in recent years to meet industry labour requirements.

- Between 2022 and 2023, the number of energy services employees decreased by 11%, while the upstream sector saw 5% employment growth.
- From 2023 to 2024, this trend has shifted substantially, with year over year employment growth in energy services expected to be 26%. This is due in part to strong recruitment practices within industry, in combination with record-level population growth in the province.
- For 2025, we anticipate employment in the energy services sector to increase by 3.5% or 2,600 people, and upstream employment to increase by 3% or 3,400 people.

RISKS TO THE OUTLOOK

The outlook for Canada's upstream oil and gas industry and drilling service sector is very favourable. Investment is expected to be robust, export capacity is expected to grow, and drilling activity is expected to increase during the forecast period. That said, there are a number of risks to this outlook.

Upside Risks

- **Expanded Market Access:** With TMX online in May 2024 and LNG Canada expected to be operating in mid-2025, the increased market access has the potential to drive additional investment activity in the WCSB due to more favourable pricing and demand expectations. This additional investment into the basin would, in turn, generate increased profits, employment and government revenues.

- **Geopolitical Disruption:** As was observed with the Russian invasion of Ukraine, a major geopolitical disruption has the potential to increase oil and gas prices and/or displace traditional sources of supply, thereby creating the conditions for additional oil and gas investment and production in Canada. The Israel conflict has the potential to lead to a broader regional war, including the prospect of the disruption of Iranian oil production.

- **Government Change:** The prospect of government change represents a significant risk to the outlook. New administrations have been or will be elected in BC, Saskatchewan, federally and in the United States within the next year.

    - A federal election is expected before the end of October 2025. A change in federal government that alters current oil and gas policy direction could significantly improve Canada's oil and gas investment climate.

    - In Saskatchewan, the re-election of the Saskatchewan Party will provide continued confidence that the province will seek to continue to attract investment and encourage economic growth.

    - BC will continue to be an uncertain environment with a divided legislature. However, there may be a renewed focus on affordability and economic growth as an outcome of the election.

    - A change in the US administration could lead to a significant shift in energy policy, creating new opportunities for cross-border energy trade and investment.

Downside Risks

- **Slowing Global Economic Growth:** The potential for slower global economic activity is a risk to the outlook. Many global central banks have begun to reduce interest rates in response to slower global economic growth. Chinese oil demand growth is expected to slow in the near-term. The IMF global growth forecast predicts 3.2% growth in 2024 and 3.3% growth in 2025. That said, North American economic growth risks are likely balanced, as both Canadian and US central banks are in the midst of measured rate reductions.

- **Industry Consolidation:** Upstream companies are increasingly focused on generating free cashflow, and there has been significant acquisition activity in the sector in recent months (e.g. Tourmaline acquisition of Crew, CNRL acquisition of Chevron's Canadian interests). This is likely to continue into 2025, and higher M&A activity generally results relatively lower service industry activity after consolidation.

- **Higher OPEC+ Production Quotas:** There is the risk of higher Organization of Petroleum Exporting Countries (OPEC)+ production. The OPEC+ group was exploring delaying a planned output hike in October 2024 due to softening prices, but output hikes could occur in the short to medium term, thereby putting downward pressure on prices and lower investment returns.