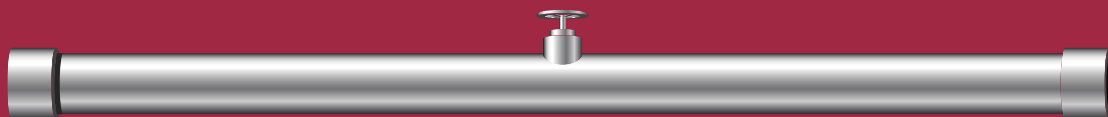


CONTEXT

Energy Examined.



THE LONG-TERM NEED FOR CANADA TO DIVERSIFY ITS OIL AND GAS MARKETS REMAINS A PRIORITY



CAPP'S LOOK AHEAD SPECIAL EDITION

MESSAGE FROM
PRESIDENT
AND CEO
TIM MCMILLAN

YOUR
ENERGY CITIZEN
TOOLKIT

IN CLOSING:
SHIFTING TO
ENGAGEMENT

CAPP
CANADIAN ASSOCIATION
OF PETROLEUM PRODUCERS
Canada's Oil and Natural Gas Producers

Table of CONTENTS

Volume 3 Issue 1

THE LOOK AHEAD ISSUE



Departments

- 3 In This Issue
- 4 President and CEO's Message
- 6 What's Up at CAPP? Highlights from 2014 and Our Plan and Deliverables for 2015
- 10 Energy Citizen Profile: Alishia Klein
- 11 Energy Citizen Toolkit
- 12 O&G 101: Falling Oil Prices
- 13 CAPP Interim Update: Short-Term Forecast
- 14 In Closing: Jeff Gaulin, Shifting to Engagement

CONTEXT IS PRINTED ON 100 PER CENT POST-CONSUMER FIBRE, MANUFACTURED USING BIOGAS ENERGY



PERMANENT

BY USING 786 KG OF RECYCLED MATERIAL WE SAVED:



13 GJ OF ENERGY



53,760 LITRES OF WATER



2,162 KG OF GREENHOUSE GASES



659 KG OF SOLID WASTE



15 TREES

CONTEXT

Energy Examined.

The official member magazine for the
Canadian Association of Petroleum Producers (CAPP)

Volume 3 Issue 1

context@capp.ca | www.capp.ca/context

Publisher

Jeff Gaulin, vice-president communications CAPP
Jeff.Gaulin@capp.ca

Managing Editor

Brenda Jones, manager communications CAPP
Brenda.Jones@capp.ca

Editor

Andrew Mah, communications advisor CAPP
Andrew.Mah@capp.ca

Art Director

Susie Wong, Blunt Strategic in co-operation with
Radfactory House of Design

Contributors:

Alishia Klein, Chris Wedman

Digital Communication

Melissa Lampman, digital communication advisor CAPP
Melissa.Lampman@capp.ca

Distribution and Member Updates

Janine Vandenberghe, administrative assistant CAPP

Janine.Vandenberghe@capp.ca

Please contact for changes in contact names and delivery addresses.

Context Concept, Strategy and Product Development

Agnes Zalewski, Blunt Strategic

CAPP Executive Team

President and CEO

Tim McMillan Tim.McMillan@capp.ca

Vice-President, Policy and Performance

Alex Ferguson Alex.Ferguson@capp.ca

Vice-President, Communications

Jeff Gaulin Jeff.Gaulin@capp.ca

Vice-President, Western Canada Operations

Brad Herald Brad.Herald@capp.ca

Vice-President, Pipeline Regulation and General Counsel

Nick Schultz Nick.Schultz@capp.ca

Vice-President, Oil Sands and Markets

Greg Stringham Greg.Stringham@capp.ca

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Offices

Calgary

2100, 350 – 7th Ave SW, Calgary, Alberta T2P 3N9,
Tel: 403.267.1100

Ottawa

1000, 275 Slater Street, Ottawa, Ontario K1P 5H9,
Tel: 613.288.2126

St. John's

403, 235 Water Street, St. John's, Newfoundland and Labrador, A1C 1B6,
Tel: 709.724.4200

Victoria

310, 1321 Blanshard Street, Victoria, British Columbia, V8W 0B5,
Tel: 778.410.5000

A SPECIAL LOOK AHEAD EDITION



» We are pleased to bring you the first edition of *Context* for 2015 with a focus on the big picture for the year ahead for CAPP.


In keeping with the challenging fiscal times, you'll notice that this issue is slimmer than previous editions—trimming back a number of the departments and special features that normally appear in your member magazine. That's partly reflective of this issue being a special abridged edition with a very specific focus: CAPP's plans and priorities for the year to come. We wanted to come out early in 2015 to make sure you know how CAPP intends to deliver value to you, our members, and to share some exciting initiatives we will be executing as part of a vision to take our communication and outreach efforts to a new level.

This leaner *Context* is the first step in an evolution of your member publication, as we move to more digital content and other forms of member engagement. As you'll see in our next edition (due out in early April in advance of the CAPP Scotiabank Investment Symposium), we'll be making further changes that reflect feedback you provided us in our recent readership survey, as well as changes to align with a CAPP-wide shift towards greater direct engagement. We've started that process in this edition with the addition of two new departments: Energy Citizen Profile and Energy Citizen Toolkit. Using content arising from the Canada's Energy Citizens campaign, our aim is to provide you not only with information and perspective on current issues in the industry, but to deliver material you can share in support of our industry within your personal and professional networks.

So take some time with our special edition. Make sure you read our Q&A with CAPP president and CEO Tim McMillan (page 4); Tim talks about his first five months on the job and some of the key things to look for from him and CAPP in the year to come. In "What's Up at CAPP" (page 6), we

highlight a few milestone accomplishments from last year and outline our top five competitiveness and top five public confidence deliverables for 2015. In a nod to current events, "Oil and Gas 101" (page 12) features a primer explaining oil prices, while in "CAPP Interim Update" (page 13), we've done some number crunching to show you the impact of low prices on short-term production.

Finally, "In Closing" (page 14) features CAPP vice-president communications Jeff Gaulin. He discusses how and why industry should stand up for itself as part of a shift towards engaging oil and gas supporters to become a powerful voice in debates over resource development in Canada.

I'll close by mentioning the CAPP Scotiabank Investment Symposium being held in Toronto on April 8 and 9 this year. This is our 25th year of the event—this longevity is evidence of what can be achieved when we as an industry commit to working and building together. At last year's event, we had in attendance more than 200 institutional investors who cumulatively managed \$880 billion in capital funds. Planning for this year's event is well underway and we already have extremely promising support from both the oil and gas and investment communities. Whether as a sponsor, presenter or attendee, I encourage you to take part—contact me at Brenda.Jones@capp.ca for more info. 

Brenda Jones
Manager, Communications
Canadian Association of Petroleum Producers

DELIVERING VALUE IN 2015



» In September 2014, Tim McMillan took over as CAPP's president, adding on the role of CEO in December. We sat down with Tim and asked him a few questions about the year that was, and CAPP's outlook and priorities for the year ahead.

Q: *How would you describe your first five months on the job?*

It's been a tremendous learning experience. During this time, I've placed a priority on reaching out and speaking with members at all levels, from as many regions and companies as possible. In the process I've gained a pretty solid sense of the issues and concerns, priorities and aspirations of our diverse membership group. I don't have answers for all of them—but working with our board, our executive team, member volunteers and the knowledgeable staff we have here at CAPP, I believe we have the right strategies and team in place to keep delivering on the things our members need.

Q: *You've taken over during some challenging times for the industry. What is your perspective on the current climate and the importance of our industry to Canadians?*

Yes, these are difficult times for our industry, especially given today's low-price environment and ongoing issues related to market access. However, the current situation has affirmed my resolve to be exactly where I am. I joined CAPP because oil and gas is arguably the most important industry in our country, and we are at the centre of some complex issues and debates that are vitally important to our industry and to the Canadian people.

I think the recent low prices and market uncertainty, and the impact they've had: shrinking government revenues, falling capital investment and, most unfortunately, people losing their jobs—these highlight just how important our industry is to the prosperity of our nation. That's why it's vital we continue working to deliver on our broad strategic goals of enhanced competitiveness and market access through public confidence in our industry.

I'd also add that while today's low-price environment is a serious challenge to our industry, it doesn't change the long-term fundamentals that predict growth for our industry, and the need for Canada to diversify its oil and gas markets and build the infrastructure needed to get our products to these markets. Global energy demand is still headed upwards and Canada has the opportunity to be the supplier of choice at home and in the global market. That's why market access—by all means, in all directions—remains so critically important to improve the health, wealth and quality of life of all Canadians.

Q: *What are some key things members should look for from CAPP in 2015?*

In response to today's fiscal climate, we'll be placing a high priority on competitiveness issues. We are working closely with governments at all levels to ensure regulations and policies are balanced in a way that allows our industry to remain competitive even if prices remain low for an extended period of time. A couple of examples: 1) We'll be looking closely at gaining more cost-savings from the efficiencies gained by moving to a single regulator in Alberta. The AER estimates we could see up to \$80 million in savings to industry as a result of their Near Term Action Plan (NTAP), and we'll be pushing hard to see that realized. 2) We'll also be working hard on reducing municipal cost burden by participating in Alberta's Municipal Government Act Review (MGAR).

I might add that a great example of the kind of savings we can provide for industry is the recent changes to the Well Drilling Equipment Tax (WDET) formula. That was a key project taken on by our fiscal executive policy group, and the changes will save members about \$40 million over the next five years.

Another key shift members can look for early in 2015 is a new, stronger voice arising from our communications and outreach efforts. Over the past few years, we've built a solid foundation of support for our industry. However, with some critical decisions ahead of us, including some significant pipeline proposals moving through the regulatory process, it will be important for CAPP and industry to step up our game—to become more engaged and prominent in the public discourse. Then there's the federal election. We don't take sides, of course, but it remains vital that as candidates and Canadians make up their minds on policies that impact our industry, we make sure they fully understand how much, for example, our industry provides benefits to local communities, how we are world leaders with respect to safety and environmental performance, and how we have a leadership group that is committed to continual improvement.

To this end, CAPP will be growing, engaging and activating our support networks. Meanwhile, hearkening to my time in politics, I plan to be in full campaign mode throughout the year, delivering speeches and stumping at town halls and on people's doorsteps to ensure Canadians understand that our values are their values, and that their oil and gas industry is one to be proud of and to stand up for.

For a more detailed list of priorities and goals we've worked out with the CAPP Board and the Oil Sands CEO Council, check out the "What's Up at CAPP" section on pages six to nine.

CAPP vice-president of communications, Jeff Gaulin, provides detail on CAPP's 2015 engagement plan in his "In Closing" article on page 14.

"Market access—by all means, in all directions—remains critically important to improve the health, wealth and quality of life of all Canadians."


Q: *You've articulated a need for a renewal of member engagement. What do you mean by that?*

Members are the lifeblood of CAPP and I think it's incumbent on us to continually renew the conversation, not only at the board level, but throughout our executive policy groups and committees—gathering feedback, ensuring we're listening and delivering on the things they need and care about. And if we're missing the mark in any way—we'd like to hear about that too.

On the flip side, members are our strongest potential advocates and ambassadors. We need their help to remind others that we in Canada have a world-class industry

that responsibly provides products and services Canadians and customers around the world need. I hope to challenge and engage our membership to become an enthusiastic and proud voice in favour of the industry.

Q: *Additional thoughts for 2015?*

I know many of our members are hurting in this financial climate. But here, I think, is where CAPP really shines: representing industry's collective interests in ways that create significant value, save money and provide positive outcomes for our members. I look forward to being able to report on this value delivery as we move through the year. 

WHAT'S UP at CAPP

» DELIVERING VALUE IN 2014

IT WAS ANOTHER BUSY YEAR AT CAPP.
HERE ARE A FEW HIGHLIGHTS.

WDET Changes Save Industry \$40 Million

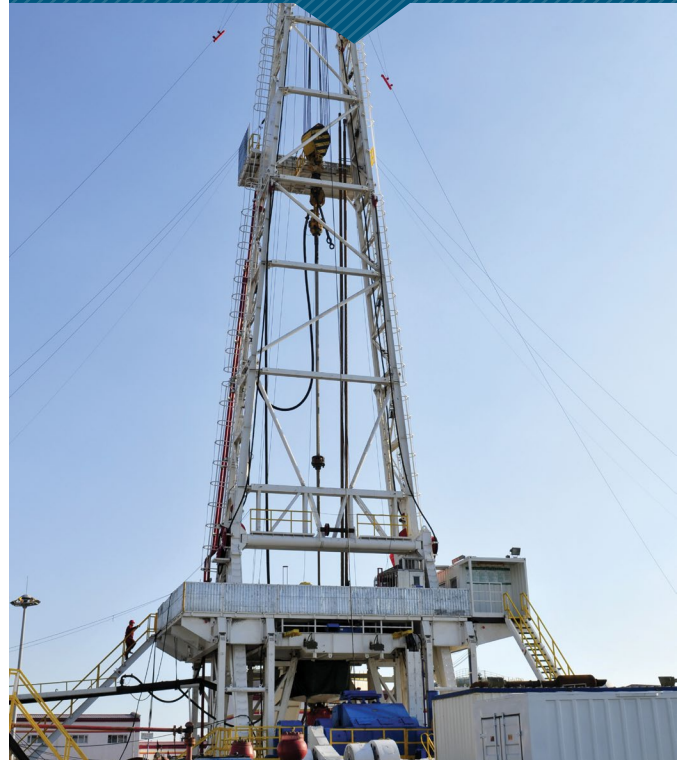
A much-needed update to the formula calculating the Alberta Well Drilling Equipment Tax (WDET) will save members as much as **\$40 million** over the next five years. Companies are charged the WDET to compensate municipalities for road maintenance and repair in light of the impact on roads of transporting heavy well equipment. The WDET is calculated according to well depth. "The new formula takes into account advances in well-drilling technology that have lessened the per-well transportation needs, such as multi-pad wells and horizontal drilling," notes Ben Brunnen, manager, fiscal and economic policy CAPP. "It brings the tax back in alignment with actual costs, preventing an exponential cost increase that would have occurred under the old formula." Working with members on the Alberta, and fiscal and economic executive policy groups, CAPP provided key feedback to the Alberta government that is reflected in these changes.

MORE SAVINGS

In March 2014, the B.C. government introduced a new Tier 1 Deep Well Royalty Credit—worth between

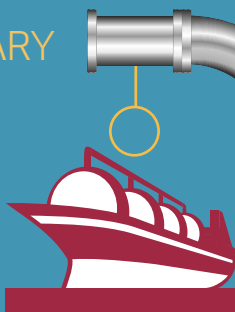
\$440,000 AND \$2.81 MILLION

per well depending on depth. CAPP advocated for the credit to help lower the cost of drilling horizontal wells in shallower formations.



CAPP 2014 TIMELINE

JANUARY



January:
CAPP publishes "An Overview of the World LNG Market and Canada's Potential for Exports of LNG."

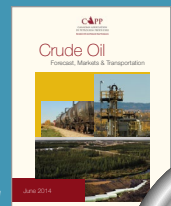
April 3 & 4:
CAPP Scotiabank Investment Symposium held in Toronto.



May 21:
The Responsible Canadian Energy Awards dinner features industry excellence in social, health and safety and environmental performance—also a rousing speech by Canada's ambassador to the U.S., Gary Doer.



June 9:
Crude Oil Forecast, Markets and Transportation published.




Northern Gateway, Line 9 Approved

On the market access front, progress was made going both west and east, with the regulatory approvals of Northern Gateway through Alberta and northern B.C., and the reversal of Line 9 between Sarnia, Ontario, and Montreal, Quebec. CAPP participated in hearings for both projects, as well as helping in outreach efforts to communities along both pipeline routes. More work needs to be done, though—Northern Gateway must meet 209 conditions placed on it by the National Energy Board (NEB). The Line 9 startup was delayed while Enbridge met a request to have shutoff valves added at water crossings, but is now on target for June 2015.

DID YOU KNOW?

Last year's CAPP Scotiabank Investment Symposium in Toronto brought together 89 oil and gas companies with 230 institutional investors. Investors in attendance cumulatively managed

\$880 BILLION
IN CAPITAL FUNDS.



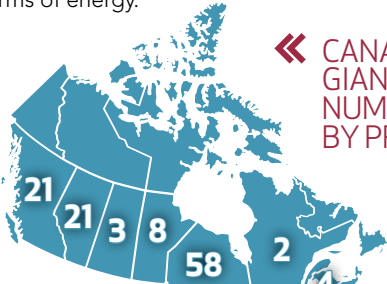
Enabling Zero: CAPP Spearheads Effort to Improve Safety Outcomes

In co-operation with Enform, CAPP unveiled in 2014 an Internet-based analytics program connected to the largest database describing injuries and illnesses available to the industry internationally. These tools position the industry to use data-driven decision-making to identify safety issues and develop and deliver appropriate industry guidance for future prevention.

Promoting Energy Literacy Among Young Canadians

CAPP's ongoing partnership with the Royal Canadian Geographical Society continued to pay energy literacy dividends. The June edition of *Canadian Geographic* was themed "Energy Rich: Exploring the Top Resources Powering Our Nation" and provided a thoughtful perspective on how some of the world's greatest reserves of oil and natural gas are found in Canada. The society also continued helping teachers integrate energy concepts and knowledge into their teaching programs through the Canada's Energy Mix giant floor map, complemented by Energy IQ, a website (energyiq.canadiangeographic.ca) rich with curriculum-compliant teaching and learning resources about all forms of energy.

« **CANADA'S ENERGY MIX GIANT FLOOR MAP: NUMBER OF BOOKINGS BY PROVINCE**




» Kids learn about Canada's energy mix during a February event at Chinook Centre in Calgary



September 15:
AER implements a new application processing system. Incorporating feedback from CAPP and industry, the new system reduces processing times.

October:
To increase energy literacy and engagement, CAPP launches an update to energycitizens.ca, and a new natural gas website, www.canadasnaturalgas.ca.

November 3 & 4:
CAPP president Tim McMillan gives speeches in Quebec and New Brunswick calling for greater engagement and more pride in the industry.



December 10:
Jamie Webster, senior director, IHS Energy discusses oil prices in the eighth and final CAPP Speaker Series event of the year.



DECEMBER

**CANADA'S ENERGY
CITIZENS**

Engaging Canada's Energy Citizens

The Canada's Energy Citizen's campaign (CEC) was launched in 2014 to engage oil and gas industry supporters to become a strong voice in support of Canadian energy and energy infrastructure development. Currently, a primary resource is the website energycitizens.ca where supporters are asked to sign up on a mailing list to receive information and updates on energy issues and events. The website was enhanced in November to include a "Get the Facts" blog area featuring stories, myth-busting factoids, infographics, and other highly shareable content. A Citizens Spotlight section was also added, featuring actual energy citizens from across Canada.

"Last year was just the beginning," says Christina Pilarski, manager of campaigns at CAPP. "We are looking to engage with many more Canadians this year. In our industry's current economic climate, we'll be on leveraging our supporters as a voice that can't be ignored in favour of Canada's energy resources." Initiatives planned for 2015 range from CEC-branded petitions, events and letter-writing campaigns, to social media conversations and so on. Special focus will be on on-the-ground initiatives to promote support in communities key to operations or along market access corridors, as well as within CAPP member companies. Make sure you're part of the discussion by signing up at the home page of energycitizens.ca.

» CONTINUING TO PROVIDE VALUE: 2015 DELIVERABLES

To get a sense of where CAPP will be focusing its energies in 2015, below are the top five competitiveness and top five public confidence deliverables for CAPP, as determined by the CAPP Board of Governors.

The competitiveness deliverables reflect a renewed emphasis on fiscal and economic competitiveness issues in response to the challenge of low oil and natural gas prices.

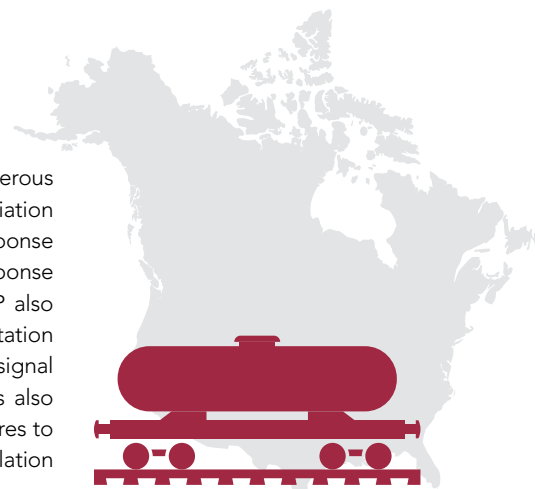
TOP 5 COMPETITIVENESS

AREA	WHAT WE'LL DO	AN EXAMPLE OF A KEY MILESTONE OR OUTCOME WE'RE WORKING TOWARDS IN 2015
1. Fiscal Competitiveness	Increase our focus on industry competitiveness and cost burden within the context of a balanced approach to public policy.	Reduction of unsustainable or inequitable cost burdens to members through feedback into the Alberta Municipal Government Act Review.
2. Environmental and Operational Regulation	Provide feedback concerning ongoing and planned federal and Alberta regulatory reform efforts.	Realization of the efficiencies and cost savings for industry of moving towards a single regulator in Alberta—without negative impacts such as delays to routine approvals.
3. Oil Market Access and Growth	Continue working to facilitate access to all oil markets capable of providing the demand needed to meet medium-and long-term domestic oil production growth.	Positive regulatory decisions on the various pipeline, rail and marine infrastructure developments in progress.
4. Natural Gas Market Access & Growth	Grow the market for natural gas (focusing primarily on LNG), which will enable upstream production growth.	Collaboration with the BCLNG Alliance to address and mitigate key challenges to LNG growth, such as fiscal cost and uncertainty, Aboriginal opposition and infrastructure.
5. Aboriginal Engagement	Provide a clear and consistent approach for industry to engage and consult with Aboriginal Peoples.	Creation of a charter that outlines key Aboriginal engagement and consultation principles for industry.



Improving Rail Safety

CAPP has been involved in several measures to improve rail safety when transporting dangerous goods. This included the formation of an industry task force among CAPP, the Railway Association of Canada and the Canadian Fuels Association. The task force developed an Emergency Response Assistance Plan framework and identified the Liquid Petroleum Gas Emergency Response Corporation (LPGERC) as the organization to design and implement this framework. CAPP also committed to establishing a task force to support member participation in the Transportation Community Awareness and Emergency Response initiative (TransCAER)—sending a strong signal of the upstream industry's commitment to product stewardship and public safety. CAPP is also providing feedback to governments to ensure alignment between U.S. and Canadian measures to enhance rail safety, including rail tank car standards, ensuring safe, clear and consistent regulation for increasing oil transportation by rail across the Canada/U.S. border.



Public confidence communications and outreach campaigns for both oil sands and unconventional natural gas and oil will be aligned with a broad engagement initiative, the Canada's Energy Citizens campaign. The campaign will focus on building support for the industry as a whole, and encouraging that support to become more active, engaged and vocal on behalf of industry.

TOP 5 PUBLIC CONFIDENCE



AREA	WHAT WE'LL DO	AN EXAMPLE OF A KEY MILESTONE OR OUTCOME WE'RE WORKING TOWARDS IN 2015
1. Overall Public Confidence	Enhance public confidence to enable production growth and exports.	Stronger public opinion in favour of Canada's oil and gas industry, particularly in Ontario and B.C.
2. Industry Performance	Re-tool the Responsible Canadian Energy (RCE) Program to more effectively promote and enable industry performance improvement.	A renewed program design that provides increased value to members through a robust performance management framework, and meaningful recognition of performance improvements.
3. Safety	Enable industry leadership in worker safety and producer-owned pipeline safety and integrity, with a focus on high consequence areas.	Identification of safety issues and trends through data-driven incident analysis, and the subsequent determination of best practices and targeted initiatives to improve outcomes.
4. Oil Sands Communications and Engagement	Execute an oil sands communications and engagement plan incorporating a focus on Canadian values of strong safety and environmental performance, local benefits and industry leadership.	Improvements in public and stakeholder support, as measured by qualitative and quantitative opinion research and other feedback showing more Canadians support oil sands development and more Canadians support pipeline development.
5. Unconventional Natural Gas and Oil Communications and Engagement	Execute a community engagement plan incorporating a focus on Canadian values of strong safety and environmental performance, local benefits and industry leadership.	Improvements in public and stakeholder support, as measured by qualitative and quantitative opinion research and other feedback showing public confidence in hydraulic fracturing remains solid in B.C. and Alberta.

Definition: **HIGH CONSEQUENCE AREA:** An area where an accidental pipeline spill or release would have major environmental, health and safety impacts, such as into a waterway.

Alishia's ENERGY STORY:

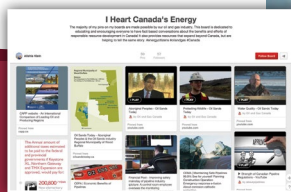
CHALLENGING
MYSELF TO
GET THE FACTS
TURNED ME INTO
A PROUD ENERGY
CITIZEN

**PETROLEUM-BASED PRODUCT
SHE CAN'T LIVE WITHOUT:**
Her contact lenses.

**WORD DESCRIBING LIFE
WITHOUT OIL AND GAS:**
"Lonely."

HOW ALISHIA SHOWS SUPPORT FOR THE INDUSTRY:

- Sharing facts with family and friends;
- Started a Pinterest board titled "I Heart Canada's Energy";
(find it at www.pinterest.com/AlishiaKlein/i-heart-canadas-energy/)
- Agreed to be on the CEC Citizen Spotlight:
energycitizens.ca/citizen-spotlight/alishia-klein.



ENERGY CITIZEN: Alishia Klein

COMPANY: Canadian Natural Resources Limited

AGE: 30

JOB: Communications coordinator, public affairs

Photograph: Chris Wedman

» Alishia Klein started working at Canadian Natural Resources Limited in 2008, and currently holds the role of communications coordinator, public affairs. Part of her responsibilities includes answering questions about her company's performance surrounding environmental, social and governance issues.


When I began working for the oil and gas industry, I didn't ask a lot of questions about corporate social responsibility. I worked in a small team and that wasn't part of my daily focus. Now, working in public affairs, I am often confronted with tough questions like, "What's your company's approach to human rights issues?" or "How do you work with the communities near your operations?"

Outside of work, the same challenges existed for me. I remember visiting family in northern British Columbia, near Kitimat, a place I spent every summer of my childhood fishing, and I saw a sign there that stated, "Say No to Gateway." It made me think: What would happen if there was an oil spill in a place so special to our family?

These questions challenged me to research beyond just what our company was doing, into what our industry was doing, and encouraged me to think about my feelings towards Canada's energy industry and my part in it. So I began to dig deeper—I started reading and researching: everything from what Greenpeace was up to and why, all the way to collecting pipeline safety statistics from CEPA. In addition, I reached out to my colleagues for their perspectives.

What I've learned is that there are always challenges. But as an industry, we're doing the right things—we operate safely and responsibly, we care about the environment and our stakeholders, and we are continuously improving, investing in technology, communities and programs

to reduce our footprint. I have realized that I am proud to work in the industry, and proud to work for Canadian Natural.

There's always more to learn, but I'm now able to confidently and genuinely have fact-based conversations about important issues. I have even engaged a few friends and family members along the way and by sharing what I have learned so far, I think maybe I've helped open some of their eyes too. 



GETTING THE FACTS

Alishia uses Twitter to keep informed on oil and gas issues from a diversity of viewpoints. Some feeds she follows: [@globeandmail](#); [@nytimes](#); [@CBCNews](#); [@mattwridley](#); [@Greenpeace](#); [@ezrelevant](#); [@OilSandsToday](#); [@YoungMsEnergy](#); [@UN](#).

**CANADA'S ENERGY
CITIZENS**

Alishia is a proud member of the Canada's Energy Citizens community. Join her and thousands of others by signing up at energycitizens.ca and get involved today.

GET INFORMED AND ENGAGED

WITH CANADA'S OIL AND GAS INDUSTRY—HERE ARE SOME SUGGESTED ACTIVITIES, RESOURCES AND FACTS TO GET YOU STARTED.

**FIVE RESOLUTIONS FOR 2015**

- ☐ **Watch** the TED talk: The Magic Washing Machine.
- ☐ **Explain** why shale gas extraction is a safe, proven technology to one person in your life.
- ☐ **Sign up** for EnergyCitizens.ca, and get a friend to join too.
- ☐ **Share** the "Fuel for Thought: Economic Benefits Across Canada" oil sands infographic (see below) via your favourite social media channel.
- ☐ **Be proud** of the work you do at a socially and environmentally responsible oil and gas producer or service company.

Check off all five resolutions?
Let us know at Context@capp.ca
and we'll send you a pair of
I ♥ Canada's Energy headphones.

**VIEWING SUGGESTION:
The Magic Washing Machine**

Hans Rosling's "The Magic Washing Machine" is an engaging TED talk that explores fundamental realities about energy demand growth that green activists too often ignore. Framed through the lens of gender equity and a rather "boring" home appliance, Rosling's talk reminds us that energy solutions require more thought than just saying "no" to fossil fuels.



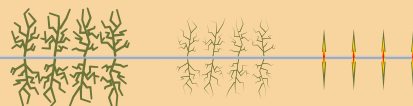
http://www.ted.com/talks/hans_rosling_and_the_magic_washing_machine?language=en

Do you have suggestions of a book, article, website, video or podcast that engaged energy citizens should know about? Send in your ideas to Context@capp.ca.

DEBUNKING THE MYTH

Some critics suggest hydraulic fracturing causes drinking water contamination. Here are a few facts to debunk this myth:

- Hydraulic fracturing typically occurs in geological formations two kilometres below the surface—far away from water aquifers which are located about 200 metres below the surface.
- In Canada, all natural gas wells, including those that are hydraulically fractured, use an engineered steel casing system that is cemented externally to prevent fluids from escaping the wellbore.
- Over the past 60 years, more than 175,000 wells have been fractured safely in Alberta and B.C., according to regulators in these provinces.
- Canada's shale gas and tight gas industries follow robust government regulations and best industry operating practices, such as CAPP's Guiding Principles and Operating Practices for Hydraulic Fracturing (www.capp.ca/canadaindustry/naturalGas/ShaleGas), designed to protect Canada's water resources.

2000m**SHARE THE INFOGRAPHIC:
Fuel for Thought: Economic
Benefits Across Canada**

Canada's oil sands industry currently makes an important economic contribution to communities all across the country, and is a source of future growth and prosperity for all Canadians. Download, print and share our "Fuel for Thought" infographic highlighting key economic figures linked to long-term oil sands development. Find it under the "Get the Facts" tab of EnergyCitizens.ca.

**FUEL FOR THOUGHT:
ECONOMIC BENEFITS ACROSS CANADA**

When you hear oil sands, do you automatically think of Alberta? You're not alone. Sure, the majority of our oil sands are in Alberta but they're not just an Alberta advantage. Almost every community in Canada has been touched by oil sands development that stimulate job creation, economic growth and government revenue beyond Alberta's borders.

**GET MORE FACTS:
Suggested CAPP Resources**

The Facts On: Oil Sands

www.capp.ca/upstreamdialogue/oilsands

The Facts On: Natural Gas

www.capp.ca/upstreamdialogue/naturalgas

CAPP members can order hard copies at Publications@capp.ca.



Oil and Gas 101:

FALLING OIL PRICES

Why today's low oil prices? The basic explanation is that there's currently a significant global supply / demand imbalance. In recent years, supply has steadily increased, most notably due to increased shale and tight oil production out of the United States. Canadian production has also risen, and combined with stabilized production out of historically inconsistent sources such as Libya, Iraq and Iran, plus Saudi Arabia's decision to maintain OPEC's total oil production at 30 million barrels per day—ostensibly to drive higher-cost producers in North America out of the market—there's a hefty over-supply of oil on the global market. At the same time, slowing economic growth in places such as China has resulted in a slower-than-expected growth rate in global energy consumption. So basic economics: a current oversupply that existing demand can't keep up with = today's low oil prices.



OIL PRICES AS OF:

	JANUARY 2015	JANUARY 2014	% CHANGE
BRENT	\$47.76	\$108.12	-56%
WEST TEXAS INTERMEDIATE (WTI)	\$47.33	\$94.86	-50%
WESTERN CANADIAN SELECT (WCS)	\$30.43	\$65.69	-54%
BRENT/WTI DIFFERENTIAL	\$0.43	\$13.26	-97%
WTI/WCS DIFFERENTIAL	\$16.90	\$29.17	-36%


Prices expressed as calendar monthly average in US\$ per barrel, based on daily closing spot prices. *Source: CAPP Crude Oil Report*

WCS/WTI/BRENT: DIFFERENT PRICES FOR OIL

1. **Brent:** The international benchmark price for light oil from the North Sea. The price is set out of London, England, and it is the price used for two-thirds of the world's internationally traded crude oil—particularly oil traded across the Atlantic basin.
2. **West Texas Intermediate, or WTI:** The benchmark price for light oil set in Cushing, Oklahoma and traded on the NYMEX. It tends to reflect the market price within central and western North America.
3. **Western Canadian Select, or WCS:** The price for heavy oil out of Western Canada. The price quoted is at Hardisty, Alberta.

Differential: The difference in price between different sources of oil.

THE BIG PICTURE

The fundamentals for long-term global energy demand growth remain strong, as forecast in the International Energy Agency's long-term World Energy Outlook published in November (www.worldenergyoutlook.org). While alternative energy sources will be developed, fossil fuels will remain the world's dominant energy source for generations. This means that growth in Canadian production and the need for access to new markets via pipeline and other transportation infrastructure remains a priority for Canadian producers. —AM 

U.S. annual oil production is up
58 per cent
from 2010 to 2014.



CANADIAN PRODUCERS

It's a challenging price environment for everyone. However, the fall of the Canadian dollar combined with shrinking differentials between the price of internationally traded oil and Canadian heavy oil have shielded Canadian heavy oil producers from about half of the total fall in oil prices. Still painful, but it could have been worse.



KEY TERMS:

OPEC: Organization of the Petroleum Exporting Countries, consisting of 12 member countries from the Middle East, Africa and South America.

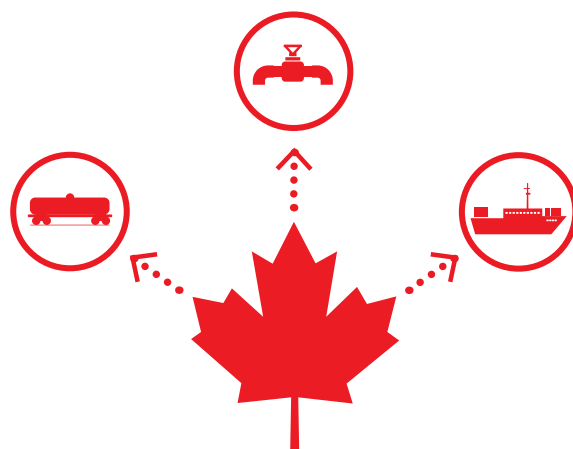


MORE ONLINE:

CAPP members can access monthly updates of oil and gas pricing via our *Crude Oil Report* and *Natural Gas Report* on MemberNet: <https://membernet.capp.ca/Data/default.aspx>

CAPP INTERIM UPDATE SHORT-TERM FORECAST

DESPITE THE DECLINE IN OIL PRICES, THE LONG-TERM NEED FOR CANADA TO DIVERSIFY ITS OIL AND GAS MARKETS AND BUILD INFRASTRUCTURE REMAINS A PRIORITY.

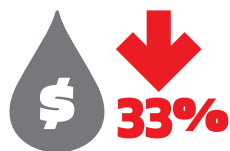


“CANADA HAS THE OPPORTUNITY TO BE THE SUPPLIER OF CHOICE AT HOME AND IN THE GLOBAL MARKET AND THAT’S WHY MARKET ACCESS—BY ALL MEANS, IN ALL DIRECTIONS—IS SO CRITICALLY IMPORTANT TO IMPROVE THE HEALTH, WEALTH AND QUALITY OF LIFE OF ALL CANADIANS.”

– CAPP PRESIDENT, TIM MCMILLAN

On January 21, CAPP released an interim update including short-term forecasts for: 2015 capital spending in the Western Canadian Sedimentary Basin, including the oil sands; number of wells to be drilled in 2015; and oil production in 2015 and 2016. The forecast reflects changes to spending intentions due to the recent decline in oil prices.

Capital investment in Western Canada, including the oil sands, will total \$46 billion in 2015, down 33 per cent from \$69 billion invested in 2014.



The total number of wells to be drilled in Western Canada this year is forecast to decline by 30 per cent to 7,350 wells.

The new 2015 forecast for total Western Canadian oil production is 3.6 million barrels per day, about 150,000 barrels per day higher than estimated 2014 production of 3.5 million barrels per day, with a similar rate of growth expected in 2016.



**OIL SANDS
PRODUCTION INCREASES TO
2.3 MILLION
BARRELS PER DAY**

Conventional oil production is flat at 1.3 million barrels per day in 2015 and oil sands production increases to 2.3 million barrels per day in 2015 due to projects coming on stream from prior-year investments.

**INCREASED NEED FOR
TRANSPORTATION
CAPACITY**



Continued production growth underscores the ongoing need for market diversity and increased transportation capacity.

The interim update is a snapshot in time, based on pricing as of late December 2014. If price declines continue, further revisions may be needed. CAPP's next scheduled production forecast will occur in our annual *Crude Oil Forecast, Markets and Pipelines* report, published every year in June.

In Closing: SHIFTING TO ENGAGEMENT

Canadians from coast to coast support the development of their oil and gas resources. In poll after poll, the oil and gas industry routinely scores more than 40 per cent support of the population, while opposition typically scores around 25 per cent. It's the type of polling numbers any political party would love to have to form a majority government with a strong mandate.

So why does it feel some days that industry is losing the confidence of Canadians? News headlines, activist movements, online chatter—it can seem some days that the majority of Canadians are moving against us. But poll after poll, by CAPP and other sources, show us that's simply not the case.

How can this be? In my opinion, while our opponents have been loud, our supporters have been too quiet. We've allowed a vocal minority with a very narrow agenda to dominate media coverage and social media activity. This domination overshadows the majority of Canadians who value what we do and who appreciate the responsible manner in which we do it.

While our opponents take to the streets at rallies with placards and bullhorns, our supporters tend to give us the thumbs-up, and then go about their lives, using the energy we produce every day to improve their quality of life and that of their community. About one in 10 of our supporters say they would speak up in support of our industry. For our opponents, more than one in four say they are willing to speak out against us.

Starting in 2015, CAPP will be working to change this dynamic. This year you will see a shift in our communications and public engagement. We'll be appealing to our supporters' pride in Canada's oil and gas industry, and driving a measured



WHAT IS CANADA'S ENERGY CITIZENS?

Canada's Energy Citizens (CEC) is a growing online community of individuals that support Canada's oil and natural gas industry and are willing to show it in ways large and small. Visit the website energycitizens.ca and:

- Sign up to join the community and receive updates, important facts and event notifications.
- Read the "Get the Facts" blog for stories, infographics and factoids about energy, the economy and the environment.
- View "Citizen Spotlight" to see who else has stepped up with pride in support of Canada's energy industry.

For those of us who believe in Canada's oil and gas industry, it's time to stand up and be heard.

action among our supporters. We want to convert Canadians' passive support into active support.

Through efforts such as the Canada's Energy Citizens campaign, we will be putting an increased focus on reaching Canadians "eyeball to eyeball" to boost public confidence in our industry. With your help, we'll be reaching out directly to supporters in communities where we operate and along key market access corridors—calling on them to stand up and make their voices heard.

Our opponents are effective at generating media and social pressure on the public and on governments. We intend to help our supporters do the same. We know most Canadians support resource

development, including the oil sands. They just need more support to speak up.

Central to that effort, of course, are you, our members. For those of us who work for and believe in Canada's oil and gas industry, it's time to stand up and be heard.

Part of our strategy will be to arm you and supporters such as you with resources, tools and opportunities to help you be an active part of the energy conversation. Through the Canada's Energy Citizens campaign, as well as through member communication tools like Context and our digital online and social media channels, expect more practical, timely and shareable content: engaging material that you can tack onto a bulletin board or send out to colleagues and friends via your social media networks, like how Canada's Energy Citizen Alishia Klein does with her Pinterest board (page 10). Down the road, we'll also be looking for your participation in initiatives ranging from online petitions to letter-writing campaigns. We'll even help you start a mini-campaign or pro-industry rally in your local neighbourhood or community.

Every show of support helps, large or small. But any great movement starts with a first step.

What can you do? My first call to action is to ask you to register online for our Canada's Energy Citizens campaign. We all work in a tremendous industry that all Canadians can be proud of, so let's not apologize for what we do. Let's be timely in speaking up for our industry, before misconceptions take hold. And let's be unrelenting, because if we don't speak up for our industry, we know our opponents will be there to speak out against. **C**

Jeff Gaulin
Vice-President Communications
Canadian Association of Petroleum Producers

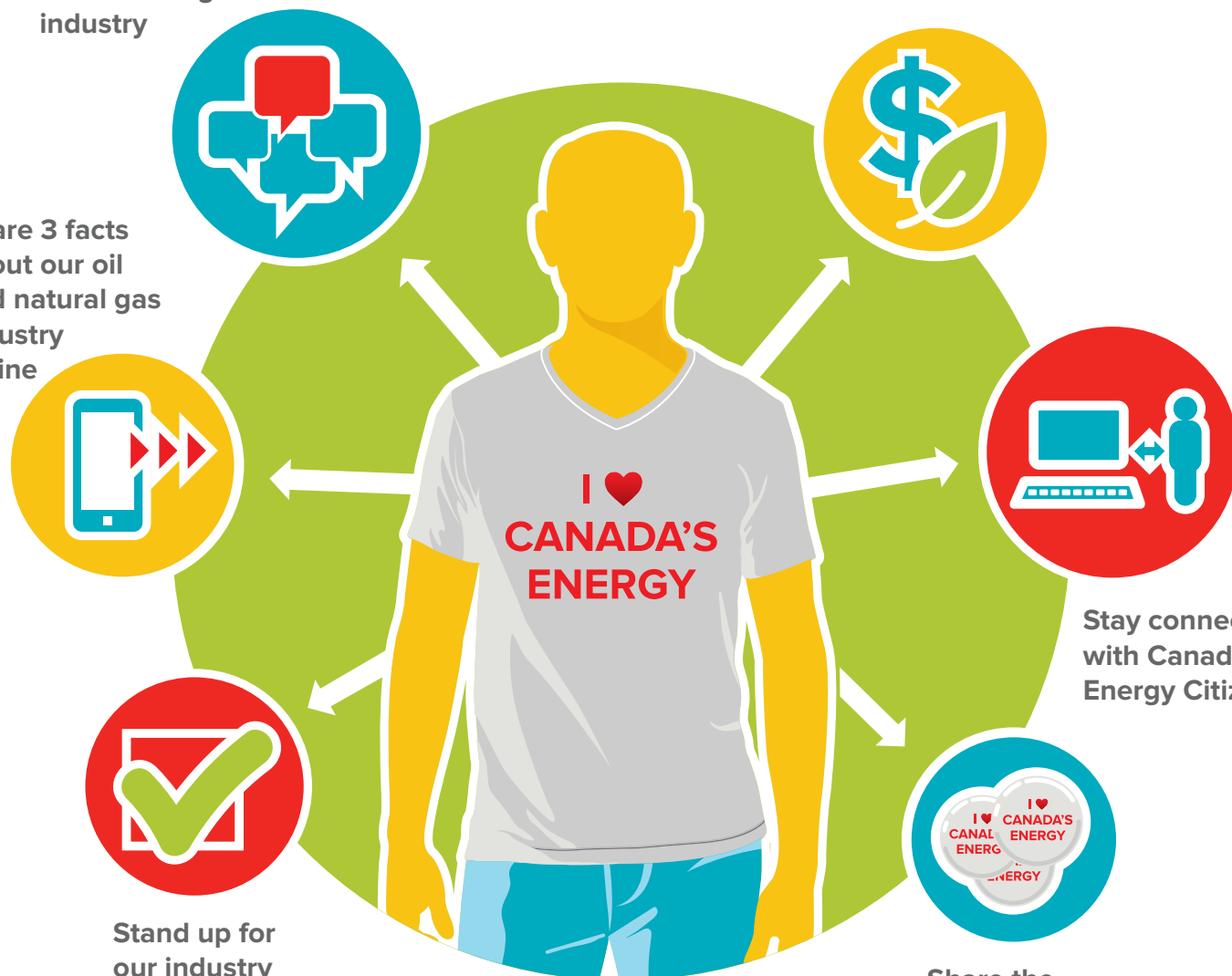
JOIN CANADA'S ENERGY CITIZENS

Your
2015 New Year's
Resolution

Tell 5 friends
about Canada's oil
and natural gas
industry

Be proud of our
strong economic and
environmental record

Share 3 facts
about our oil
and natural gas
industry
online



Stand up for
our industry

Stay connected
with Canada's
Energy Citizens

**CANADA'S ENERGY
CITIZENS**

Share the
"I heart Canada's
Energy" message
with 4 family members

Show your support for Canada's Oil and Natural Gas Industry.
Spread the word about the positive role energy plays in your
daily life and in your community.

Sign up at energycitizens.ca



CANADIAN ASSOCIATION
OF PETROLEUM PRODUCERS

Canada's Oil and Natural Gas Producers

25TH CAPP INVESTMENT SYMPOSIUM

PROUD TO PARTNER WITH **SCOTIABANK**
FOR 2 YEARS RUNNING

ATTENTION CAPP MEMBERS SUPPORT YOUR 2015 CAPP SCOTIABANK INVESTMENT SYMPOSIUM

Don't miss out on this year's premier oil and gas investment conference. The CAPP Scotiabank Investment Symposium gets you front and centre with the international investment community, plus access to CAPP-members only benefits.

WHY ATTEND?

- Provide your company's outlook to investors via panels, presentations and one-on-ones.
- Support CAPP and be part of industry's voice—tell our story to the Ontario market.
- Position your company's brand at the premier Canadian oil and gas investment symposium.

LAST YEAR'S EVENT ATTRACTED HUNDREDS OF
INVESTORS WHO CUMULATIVELY MANAGE

\$880 BILLION
IN CAPITAL FUNDS.

This year, be at the Sheraton Centre Toronto Hotel in Toronto, Ontario, on **April 8 and 9.**

Opportunities remain for both company presentations and event sponsorships. Contact Brenda.Jones@capp.ca to learn more.

Register and reserve your spot at cappscotia.com.



CANADIAN ASSOCIATION
OF PETROLEUM PRODUCERS
Canada's Oil and Natural Gas Producers



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