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FOR IMMEDIATE RELEASE

Alberta Royalty Review: Relative Attractiveness of Alberta vs. US Gas Basins --- 2 Very Contrasting Views

Calgary, September 14, 2007

The Alberta Royalty Review Panel will shortly be advising the Provincial Government on recommendations for a new royalty structure for Alberta's energy resources, including natural gas, following which the Alberta Government will make its policy decisions.

New gas cost study information was recently added to the Alberta Royalty Review website by the Alberta Department of Energy. In the interests of a sound outcome for the Canadian gas industry, from producers to transporters to end-use consumers, Ziff Energy Group, Canada's leading energy consulting firm, is sharing its own research analysis and findings, which present a very different perspective on the relative attractiveness of Alberta vs. US gas basins. We consider this to be a crucial time in the gas industry. The Ziff Energy results are based on actual cost and production data collected continuously for several decades, and present a very different conclusion.

The analysis posted by the Alberta Department of Energy (Technical Royalty Report OG#2) presents analysis excerpted from a study of US & Canadian gas basin economics entitled 'Diminishing Returns', 2007. The conclusions of this well-based analysis summarized on page 7, are:

"IHS/CERA (2007) analyzed the costs for all new natural gas wells in 2005. Figure 5.1 below shows the all-in long run costs by basin for wells added in 2005. IHS/CERA reports that the average total cost including capital, operating, return on capital, severance tax and royalties for these new wells was [US] \$6.83/Mcf. In fact, ***much of Alberta's resources are shown to be substantially below the average cost ... 4 of the 6 Alberta areas identified by IHS/CERA are in the lowest 7.***" [emphasis added]

Another report recently posted, Technical Royalty Report OG#1 (page 16) also states:

"A recent study by IHS/CERA ranks... 76 areas ...[and] ***CERA identifies 6 areas in Alberta*** (3 conventional natural gas areas and 3 unconventional natural gas areas) ... ***All 6 of the Alberta areas*** are shown to be ***below average for cost and above average for profitability.***" [emphasis added]

Figure 5.1 ranks the economics for 6 Alberta play types, relative to a number of US gas plays. The graph reports that the Deep Foothills gas play is the most economically attractive gas play in Canada, and that the other 5 Alberta gas plays are among the lowest one third in cost. It appears that this information may be somewhat dated (2005), and the foreign exchange rate is not current --- this is a major and obvious issue when comparing the economics of US and Canadian plays.

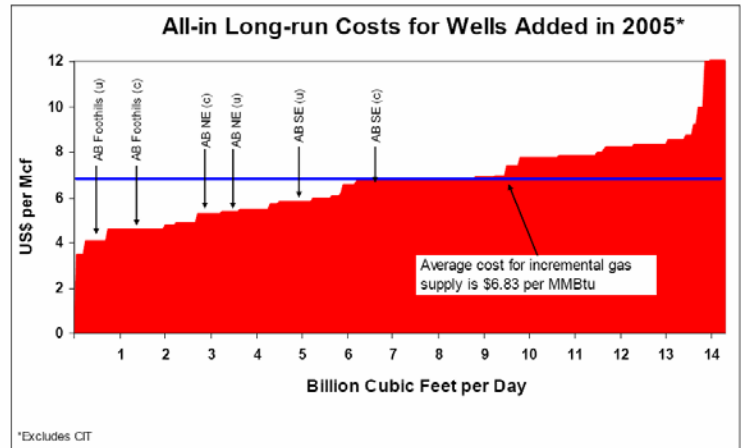
For the last quarter century, Ziff Energy has been conducting in-depth analysis of Finding & Development Costs, Operating Costs, and this year an in-depth North American Gas Cost Basin Study. *All of Ziff Energy's analyses reach highly different conclusions.* CEO Paul Ziff, a 30 year veteran of the Canadian energy industry, in both government and consulting, states:

“The IHS/CERA conclusion that the Alberta Foothills Gas Play is the lowest cost & most economically attractive gas play in Alberta flies in the face of both empirical knowledge, and Canadian E & P industry experience. Since our firm began calculating F & D for specific Alberta and Western Canada gas plays in the mid-1990's, the Foothills deep gas play has **never** been the lowest cost gas play type. To the contrary, for many years, Foothills Gas has had the **highest** F & D of any gas strategy. If the quoted study conclusion were accurate, gas production in the Foothills region should be increasing rather than declining. In fact, very few companies engage in Foothills grass roots exploration and development, which entails very high costs and risks, even for the largest, most technically sophisticated companies. Our detailed spending and reserves data is gathered from a number of explorers in each region/play type, and analyzed by seasoned exploration veterans with over a quarter century of actual experience in Western Canada. Consequently, we believe that our use of empirical data for a multi-year period from the explorers themselves reveals a far more accurate picture than the processing of cumulative industry technical statistics, and inferred costs.”

In addition to Ziff Energy's client economic analysis, Paul Ziff, when speaking to the Canadian Association of Drilling Engineers (Sept. 5, 2007), presented the following facts on current energy industry energy activity.

1. The Full Cycle Cost for Gas in Canada has *tripled during the last decade*, driven during 2001-2004 by smaller reserves added, and in the last 3 years by rampant service cost inflation, much of which has not yet materially subsided.
2. The Canadian dollar has gained over 50% compared the the US\$ since 2002, *decreasing the price* received by Canadian gas producers.
3. In contrast to oil, which is setting new records daily, the field price for *natural gas is selling at a huge discount to oil*, roughly half of the energy value of 6 Mcf per barrel.
4. Canadian gas supply has certainly peaked – the only question is how fast the decline will be. Currently the Canadian Gas Reserve Life Index (RLI, a measure of Inventory, calculated as Total Reserves divided by Current Year's Production) is only 8.5 years, a full third below the US level of 13 years.
5. The chart below shows that *Canadian gas completions are down 19% this year, and gas rig activity is down 40%, while US gas rig activity has remained constant.* If Alberta gas economics were superior, then the reverse would be true --- Alberta gas drilling would be outperforming US gas activity. Current Canadian gas rig activity is barely above the levels of 6 years ago, while US drilling rig activity is 50% higher.

FIGURE 5.1 – COMPARATIVE COSTS IN CANADA AND THE US

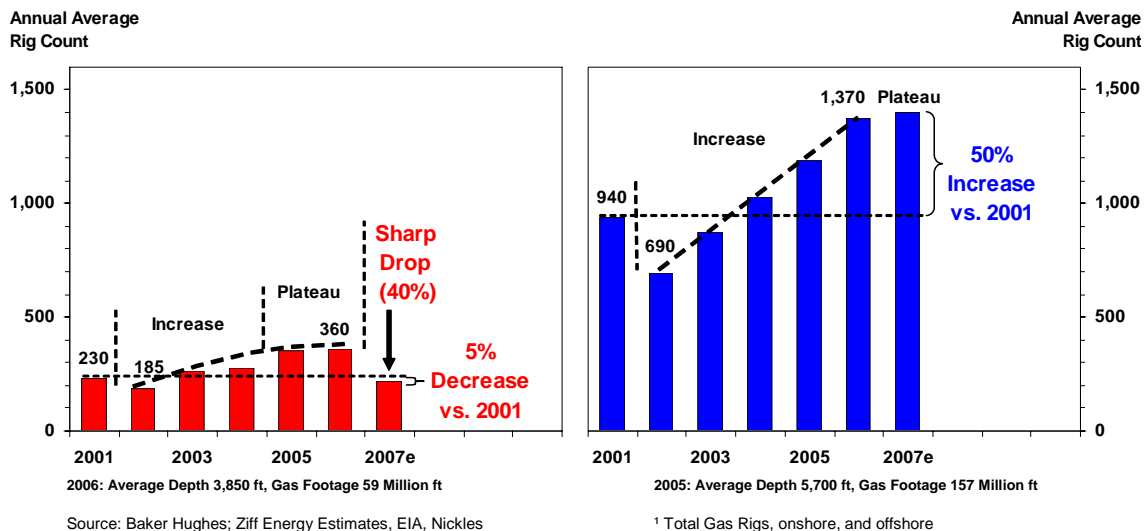


Source: IHS/CERA

North American Onshore Gas Drilling Rig Trend 2001-2007e

Western Canada
Sharp Decline '07

U.S.¹
Steady Growth/Plateau



Bill Gwozd, P. Eng., VP, Gas Services and head of Ziff Energy’s Gas Research, says *“E & P companies operating in Canada (both Canadian and American) have significantly cut back their Canadian gas directed drilling activity.* This trend to divert incremental spending away from gas towards oil began several years ago, and is well documented in Canadian energy media coverage, and in corporate reports. Many companies operating in Canada have direct knowledge of comparative economics of various gas basins in which they operate, and their decisions are not arbitrary; rather reflect capital allocation based on comparative economics, to receive the highest return.”

The findings published by IHS/CERA, derived from their study approach, could direct readers to seriously misleading conclusions, possibly damaging the credibility of the Royalty Review panel and consequently the health of an already highly stressed Alberta gas industry. As reported in this week's DOB, 60% of the Canadian upstream service companies lost money in the first 6 months of this year. The IHS/CERA study's conclusion above is contradicted by a DOB article of Sept. 29, 2005, which summarized the results of the 2005 Global Upstream Performance Review, published by John S. Herold, Inc., [now owned by IHS] in the following words:

“Canada has the dubious honour of being the most expensive region in the world to either buy or develop oil & gas reserves”. [emphasis added]

Given that 70+% of conventional activity in Canada is gas directed [i.e. excluding SAGD activity and reserve bookings], it’s hard to reconcile the 2 separate conclusions regarding the attractiveness of the Canadian upstream gas industry.

The recommendations of the Alberta Royalty Review, and the decision of the Alberta Government, will be very significant for the future of Alberta’s gas industry, which Ziff Energy believes is at a critical juncture.

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