

VIEWPOINT

3RD ANNUAL

SINO-CANADIAN OIL AND GAS SYMPOSIUM

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FOCUS: INNOVATION AND SUSTAINABILITY

JUNE 10, 2015

“We need to innovate not just in technologies, but in the way we run our businesses.”

Background Facts: Alberta + Canada in Context

ALBERTA (PRE-2015)

1. FASTEST GROWING PROVINCE IN THE PAST 10 YEARS (2014)
2. LOWEST OVERALL CORPORATE TAX RATE: NO PROVINCIAL SALES TAX (2014)
3. ONLY PROVINCE IN CANADA WHERE NET FINANCIAL ASSETS EXCEED LIABILITIES
4. HUGE ENERGY RESOURCE
5. ENERGY REGULATORY SYSTEM RANKS AMONG THE BEST IN THE WORLD
6. STRONG HISTORY OF RESILIENCY AND ENTREPRENEURIALISM

Government of Alberta, 2014

CANADA'S STRENGTHS ARE SEEN AROUND THE WORLD

Canada is the 2nd best country in the world to do business with.

Bloomberg Canada, 2014

Canada's Banking System is the world's *soudest* for the 7th year in a row.

World Economic Forum, 2014

Canada ranks 2nd overall in *global corporate governance* by independent rating agencies (1st in board structure, ownership and audit process).

FTSE Research, 2005

Canada ranked 10th out of 175 countries on the *Corruption Perceptions Index* measuring the perceived levels of public sector corruption worldwide.

Transparency International, 2014

Canada is the most tax *competitive* country for business globally - the lowest in the G-7 and 47% lower than the U.S.

KPMG, 2014

Canada has ranked #1 or #2 over the past 6 years (#1 in 2015) as the **world's most *reputable* country** - 55 countries - Government's Effectiveness / Economic & Environment Factors.

Annual Survey, Reputation Institute, 2015

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WE ARE BOTH THE BENEFICIARIES AND VICTIMS OF TECHNOLOGICAL INNOVATION. THE COLLAPSE OF OIL AND GAS IS LARGELY THE RESULT OF A LACK OF TECHNOLOGICAL ADVANCEMENT.

Trust in Business

- Generally low – globally
- **Trust in business in Canada dropped from 62% to 47%** (one of the largest declines among the 27 countries surveyed)
- The most significant reason for lowered trust: a growing feeling that **“business fails to contribute to the greater good”**

SOURCE: Edelman Trust Barometer, 2015

THESE CHALLENGES ALL SHARE ONE COMMON FUNDAMENTAL:

THERE IS A LACK OF PUBLIC TRUST IN BUSINESS, AND SPECIFICALLY IN THE ENERGY SECTOR

CASH FLOW

- **2008** - \$83.2B
- **2014** - \$65B
- **2015(F)** - \$22B
 - Down 2/3 from 2014
 - Down 3/4 from 2008
 - CCP EX. – down 50%; \$75B to \$36B

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OIL AND GAS PRICES

- **Down 50% from previous highs**
 - **Gas 2000-'08 + \$6.00**
 - **Now below \$3.00**

Now Managing a Financial Implosion:

- **Concurrently - Three Major Challenges:**
 - New government(s)
 - Market access
 - Environmental/climate concerns

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Trust in Business and Energy



When asked about credibility, **7 out of 10 people in Canada** say a CEO is not a credible source of information. Again, exemplifying the lack of trust in business leaders.

Edelman Trust Barometer, 2015

This isn't just the public looking at companies – this exists within most companies. Most employees/companies generally distrust their leadership.

Edelman Trust Barometer, 2015

RESEARCH:



3 MAJOR GAPS IN THE ENERGY SECTOR IN CANADA (PERCENTAGE GAP IN THE PERCEPTION OF IMPORTANCE OF TRUST BEHAVIORS VS. WHERE THE ENERGY SECTOR IS CURRENTLY AT):

27%

"TRANSPARENCY IN REPORTING PROGRESS ON COMPANY'S SOCIAL RESPONSIBILITIES"

24%

"EMBRACING SUSTAINABLE BUSINESS PRACTICES"

19%

"CONNECTING TO SOMETHING BIGGER" - SOCIAL BENEFIT

Edelman Trust Barometer, 2015

SHOCKING FACT:

In the US, **only 12% of employees** strongly believe their company's leaders are ethical and honest.

Maritz Study, 2012



Broadly, society sees the economic benefits and job creation, but don't believe we are committed to sustainability and social responsibility.

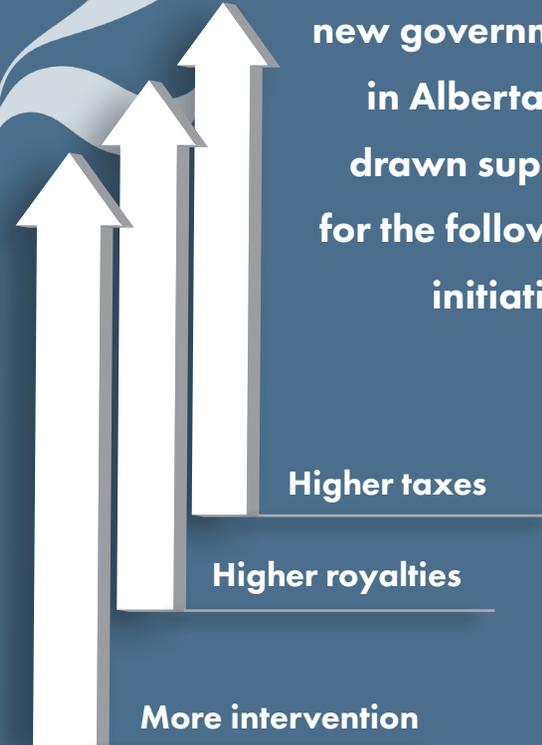
What this indicates is that underneath, there is a lack of trust in leadership.

1 CONCRETE REALITIES

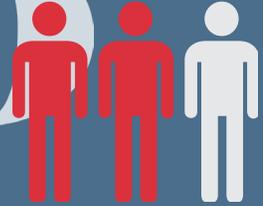
- Resistance to adoption of new technology i.e. **71% of Canadians have no trust in hydraulic fracturing** (Edelman Trust Barometer, 2015)
- More regulatory process (**52% want more government regulation in the energy industry**) – more delays/lost opportunity (Edelman Trust Barometer, 2015)
- Resistance to infrastructure development - shutting down market access opportunities (Pembina – Portland)
- Resistance to new oil extraction projects
- Growing movement within capital markets – divest oil and gas holdings

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It's no surprise the new government in Alberta has drawn support for the following initiatives:



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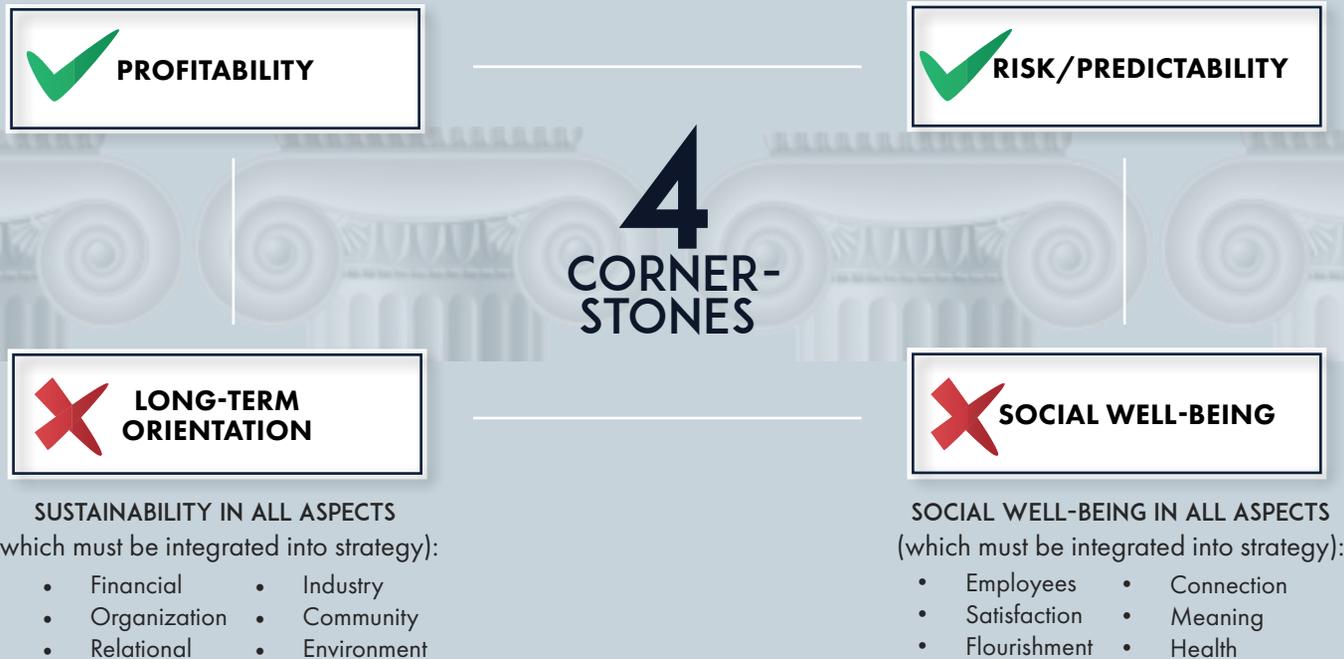
In addition, roughly 2/3 employees are characterized as disengaged.

There is an abundance of evidence linking employee engagement with superior performance.

Gallup, 2015

IT'S FAIR TO SAY THAT THE PUBLIC IS DISENCHANTED AND EMPLOYEES ARE DISENGAGED

WE NEED A BUSINESS MODEL THAT MOVES BEYOND A NARROW FOCUS ON THE BOTTOM LINE



IMPLEMENTATION OF THESE UNDERSTANDINGS IS POTENTIALLY TRANSFORMATIVE:

*In 2011, Keller and Price (two ex-McKinsey consultants) wrote the book, *Beyond Performance: How great organizations build ultimate competitive advantage.**

10 years of research; 600,000 executives and employees; over 500 companies
Health – functionality, renewal, adaptability and capacity to learn

KEY CONCLUSIONS

“...Organizations that focused on performance and health simultaneously... were nearly 3 times as successful as those that focused on performance alone.”

MY CONTENTIONS:

- We need technological innovation to lower costs/ lower emissions/find solutions
- But innovation is more than technology
- We need innovation in “strategic vision” at the company level
- We need a model which integrates a set of strategic imperatives that aligns both company interests with societal interests
- This has the power to be transformational if we, as leaders and managers, are real and authentic,

THE MESSAGE IS CLEAR AND CONFRONTING:

- 1. Focusing on traditional drivers of results is an insufficient condition for sustaining performance.***
- 2. Innovate – not just in technologies, but in the way we run our businesses.***

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