

PALOS

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Weekly Commentary

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LNG Canada – the Future of Canadian Energy

LNG Canada is a joint venture mega-project that's being built with the objective of providing Canadian natural gas producers with the capability to export our abundant energy resources to offshore markets. The joint venture is comprised of five highly credible partners: Shell Canada Energy (40%), Malaysia's PETRONAS (25%), PetroChina Co. (15%), Mitsubishi Corp. of Japan (15%) and Korea Gas Corporation KOGAS (5%). The total investment in the project is approximately \$40 billion, making it the largest private project in Canadian history.

LNG is an acronym for **Liquefied Natural Gas**. What makes LNG unique is that in its liquified form, volumes can be reduced by a factor of 600 which makes LNG ideal for transport in high-volume seafaring vessels. Specially designed to transport LNG, the LNG transportation industry has an exceptional safety record dating back to the 1960's. This is exemplified by an incident-free history of over 90,000 LNG cargoes delivered over the past sixty years. To liquify the gas it must be cooled to -162° Celsius. LNG cannot burn without the presence of oxygen and it vaporizes if its inadvertently released and can be stored at atmospheric pressure. Shell, the project's leader, has been active in LNG marine transportation for over fifty years and boasts a modern fleet.

The project is being built on the Pacific coast in Kitimat, B.C. The entry to the port's docking facilities is characterized as "deep water" which is necessary for the large LNG carriers to access loading facilities. The port is also "inland" which ultimately reduces the distance of the pipelines required to move the gas to processing facilities located in close proximity to the port. Most of the gas will come from the **Montney Formation** which is located in Northeast B.C. and Northwest Alberta. The Montney is part of the Western Canadian Sedimentary Basin (WCSB), and its resource potential has been compared to the massive **Permian Basin** in Texas and New Mexico.

LNG is abundant in Western Canada, is more affordable and is cleaner burning than alternative fuels including coal, heating oil and diesel. Pricing in Asian markets is significantly higher than domestic or U.S. markets. Historically, the U.S. has been the sole export market available to Canadian gas producers. Opening Asian trade routes will allow exporters to realize significantly higher profits over the long term.

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The project recently reached the 60% completion point. The construction phase is employing over 4,000 skilled Canadian workers which includes a significant participation from the **Haisla First Nation**. Over \$3.6 billion in contracts have been awarded with approximately 75 percent going to First Nations' businesses. When operational, the energy exported to Asian markets is "expected to offset over 90 million tonnes of CO2 emissions annually" which equates to shuttering "40 to 60 coal-fired plants in China" according to (former) LNG Canada CFO Peter Zebedee. Replacing coal with LNG significantly reduces the amount of greenhouse gas emissions from power generation.

Despite some challenges that include pipeline construction delays and hurdles like cost overruns, protests, and the workforce related impacts from Covid, LNG Canada expects the first ship to set sail sometime in mid-2025. The project will create a world class LNG industry on Canada's west coast that will also boast the lowest carbon intensity of any LNG project on the planet. Canadian producers are collectively embracing a leadership position in providing sustainable, socially responsible, and environmentally friendly energy to the world. In coming issues, we will be expanding our look into LNG Canada including investment opportunities, the impact on Canada's energy industry and the benefits to be derived for all Canadians.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$9.97	3.37%
Palos Equity Income Fund - RRSP	PAL101	\$7.40	2.45%
Palos Merchant Fund L.P. (Dec 31, 2021) ²	PAL500	\$1.16	24.67%
Palos WP Growth Fund - RRSP	PAL213	\$18.57	-1.87%
Palos-Mitchell Alpha Fund ³	PAL300	\$10.88	5.82%
S&P TSX Composite (Total Return with dividends reinvested)			4.14%
S&P 500 (Total Return with dividends reinvested)			-4.28%
S&P TSX Venture (Total Return with dividends reinvested)			-4.43%
Chart 2: Market Data ¹			Value
US Government 10-Year			2.38%
Canadian Government 10-Year			2.43%
Crude Oil Spot			US \$99.27
Gold Spot			US \$1,919.10
US Gov't10-Year/Moody BAA Corp. Spread			191 bps
USD/CAD Exchange Rate Spot			US \$0.7989

¹ Period ending April 1st, 2022. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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