

PALOS

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Weekly Commentary

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LNG Canada – An Update on LNGC Construction and Future LNG Projects in Canada

This week we wrap up our series on **LNG Canada** (LNGC) with an update on the mega-project's progress. In 2021, roughly 4,000 people were employed onsite with the project's activity level described as the "most intensive period for construction on the project".

In March, the port of Kitimat received the first in a series of a dozen modules that are being specially designed for the facility. The first module, which is an enormous piece of equipment designed to receive and redistribute gas from the **Coastal GasLink** pipeline to various locations within the facility, measures 35 stories tall and weighs over 4,500 metric tonnes. Given the size of many of the modules, LNGC constructed a 3 km long, 30-metre-wide access road that's capable of handling the offloading, transportation and positioning of the modules. Specially designed self-propelled transporters slowly move the equipment.

The pace of construction is not without its challenges. The Coastal Gaslink pipeline is a 670 km pipeline that's being built by **TC Energy (TRP: TSX/NYSE)** for the purpose of transporting over 2 billion cubic feet (2 bcf/d) of natural gas per day to the LNGC facility. The pipeline, which starts in the Dawson Creek area of Northeast B.C., crosses the Rockies as well as several First Nations territories. While there are agreements in place with all twenty First Nations along the route, a controversial dispute between Elected leaders of the Wet'suwet'en Nation who are supportive of the project, and Hereditary Chiefs who are opposed, has been ongoing.

While the project's route was permitted following rigorous field studies and consultation with indigenous communities, protests, legal actions, and even violent attack in November of 2021 have caused periodic delays and work stoppages. In February, TC Energy announced that the pipeline is expected to go significantly over budget. Originally planned for completion by 2023, legal and pandemic-related delays have pushed the completion date out. LGNC and TC Energy are in dispute over the cost overruns.

TC Energy has committed an additional \$3.3 billion in bridge financing and both parties have disclosed that they are working towards a mutually acceptable resolution. The pipeline, which is about 60% complete, is obviously a critical infrastructure component. Once completed, the first phase of LNGC would have the

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capacity to export 13 million tonnes of liquefied natural gas to markets in Asia. Shell, the majority partner, is considering the feasibility of moving forward with the project's second phase which would require approval. Phase two would double export capacity to 26 million tonnes annually.

Following recent events in Ukraine, European governments are contemplating a ban on importing oil and natural gas from Russia. Prior to the Russian invasion, Russia was supplying about 40 percent of natural gas consumed in the European Union. In response, governments in Canada and the U.S. have pledged to ramp up production and export capacity. To enhance supplies, LNG export facilities located on the U.S. Gulf Coast region of Texas and Louisiana would increase deliveries to Western Europe. This would have pricing implications for Asian and even domestic markets. In theory, a short-term solution would be an increase in Canadian gas sent to the Gulf Coast for liquefaction and export. Ideally, the long-term solution would be greater LNG capacity on Canada's Pacific coast that could supply Asian markets while U.S. LNG goes to Europe.

Other LNG projects are on the table. In February 2022, the Haisla Nation's Cedar LNG project submitted its application for an Environmental Assessment Certificate to the B.C. Environmental Assessment Office. Hopefully, a positive response will be received by the end of this year with a final investment decision made sometime in 2023. The Cedar LNG facility would be a floating facility located 8 km from LNGC at Kitimat and on traditional Haisla Nation land. Pembina Pipeline, a partner in the project, would construct an 8 km extension of the Coastal GasLink line to supply the feedstock gas.

Last month, **Woodfibre LNG Limited** (private) took an important step forward by approving a USD \$500 million budget for the engineering, procurement, fabrication and construction (EPFC) phase of its proposed LNG facility. Woodfibre LNG is situated on a former pulp mill located in Squamish B.C., approximately 70 km north of Vancouver. Woodfibre has received approvals from the federal and provincial authorities, as well as the Squamish First Nation. This marks the first ever non-treaty approval by a First Nations community. Over 100 jobs will be created, and the Squamish Nation will assume the responsibilities for the project's environmental regulation.

European desire to secure safer and friendlier energy sources is very likely to create long-term opportunities in LNG. This opens a tremendous window of opportunity it for producers of Canadian gas that is abundant, secure and relatively low cost compared to competitors. At one point in the last decade there were well over a dozen LNG projects proposed for the B.C. coast and several others for Atlantic Canada. However, low gas prices, anti-fossil fuel agendas and stricter pipeline approval processes led to cancellations in Canada while other nations moved ahead. With new incentives, and acceptance that natural gas, while a fossil fuel, is the lowest carbon emitting replacement for coal, we believe there is the potential for more LNG projects to be put back on the table. This is good news for Canada.

NOTE: We will be taking a two week break from writing our weekly. The next issue will be on May 16.

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Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$9.61	-0.37%
Palos Equity Income Fund - RRSP	PAL101	\$7.14	-1.03%
Palos Merchant Fund L.P. (Dec 31, 2021) ²	PAL500	\$1.16	24.67%
Palos WP Growth Fund - RRSP	PAL213	\$17.60	-7.02%
Palos-Mitchell Alpha Fund ³	PAL300	\$10.48	1.90%
S&P TSX Composite (Total Return with dividends reinvested)			0.66%
S&P 500 (Total Return with dividends reinvested)			-9.99%
S&P TSX Venture (Total Return with dividends reinvested)			-10.90%
Chart 2: Market Data ¹			Value
US Government 10-Year			2.90%
Canadian Government 10-Year			2.87%
Crude Oil Spot			US \$102.07
Gold Spot			US \$1,931.00
US Gov't10-Year/Moody BAA Corp. Spread			192 bps
USD/CAD Exchange Rate Spot			US \$0.7867

¹ Period ending April 22th, 2022. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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