The EN-PRO ADVISOR

October 2, 2006
96th Issue

2007 PRICE OUTLOOK

Following hurricanes Katrina and Rita one year ago the energy markets were in a state of utter chaos. There were expectations of $80 US per barrel crude oil with little relief forecast for at least a year. After analyzing all factors we suggested a budgeted crude oil number for 2006 of $68.00. To-date crude oil has averaged $68.40 US and appears to be settling in to a comfort range between $60 and $63 US per barrel.

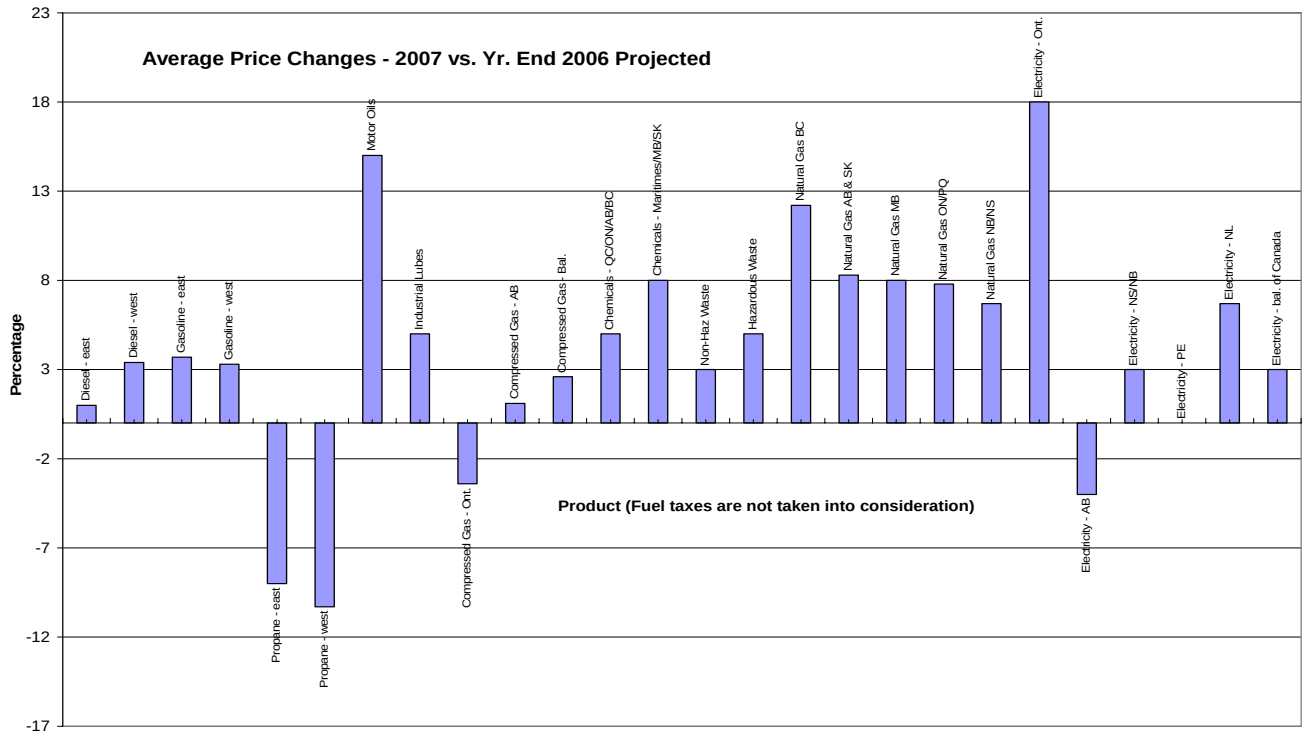
Despite the disastrous outlook, nearly every possible positive situation occurred to avoid catastrophe and pave the way for better costs in 2007. Take note:

- The winter of 2005/06 was extremely mild, especially Jan. through Mar.
- The summer of 2006 had significantly fewer cooling degree days in the east which eased electricity and natural gas demands.
- Tensions between Israel and Lebanon improved after an agreed upon cease fire.
- UN negotiations with Iran appear to have lessened concerns over nuclear weapons development.
- The slowing US economy is creating an outlook for lesser crude oil demands.

The following paper outlines our views on what's in store for 2007. We hope our comments help put things into perspective and will assist you in your budget preparation process.

TABLE OF CONTENTS:

The chart below outlines the percentage change we expect in rates for 2007 versus 2006:



PETROLEUM FUELS

At times in the past year the much-used term "the perfect storm" appeared appropriate with prices of crude, gasoline and distillates fluctuating wildly driven by speculation that anything that *perhaps* could go wrong would certainly do so. As we enter the fourth quarter we find ourselves in a "dead calm" with the $15 - $20/bbl fear factor that had been built into the $78/bbl crude price in July and again in August, eroding on a daily basis. Why is this happening now and what is the likelihood of these factors placing upward pressure on prices over the next 12 months? The rating system used in the following sections is 1-10 with 10 being highly likely.

Geopolitical Pressures on Supply: This has been by far the most subjective of the fear factors that have tested the imagination of the speculators on the NYMEX and is the key reason for the current implosion of crude costs. Interruption of supply was feared as a result of a shopping list of potential disasters none of which to date has met expectations. The list includes: strikes and kidnappings in Nigeria, the missile testing by N. Korea; the Israel-Lebanon conflict; the never ending situation in Iraq; the threat to cut off supply to the US by Venezuela and finally the fear that Iran was or is in the process of developing nuclear weapons.

The only real trouble-spot still on the horizon is Iran who appears to be a master at the cat and mouse game. If sanctions are applied then this will be piecemeal with only the US and Britain participating as France, Russia and China have too much to lose in terms of their investment and interest in the second largest oil reserves in the Middle East.

The threat by Venezuela to cut off or reduce supply to the US can be considered a bluff as the country's entire economy is driven by oil revenues. **Rating 4**

Inventories: Prices of crude and crude-derived fuels are predominantly influenced by the weekly US inventory reports which currently show the best numbers we have seen in years with crude, gasoline and distillates all above historical 5-year averages. If you add in the Strategic Petroleum Reserves, the total US crude inventory sits at over 1 billion barrels which is enough cushion to withstand any short term supply interruptions due to geopolitical tensions, real or perceived.

The only negative factor that may cause distillates prices to increase -- thereby dragging up crude costs-- is the upcoming winter. Although predicting the weather is somewhat of a lottery, an el Nino has established itself over the eastern extremes of the Pacific Ocean and there is historical evidence that this results in warmer than normal winters in the US north east, thereby lowering heating oil demand. **Rating 2**

Refining: The continuous aging of the refinery infrastructure with not a single new refinery on the drawing board should be a major concern in the next year. Luckily, while it is still early days, the expectations of a hurricane season similar to that of 2005 have not as yet occurred but it will only take one hit on the Texas/Louisiana coast to push back the recovery process that is still underway one year after Katrina. With demand for diesel and gasoline being apparently blind to high pump prices, a breakdown of any refinery with a minimum capacity of 200,000 bpd will cause sudden spikes in prices that will, as usual, be slower to retreat. **Rating 8**

Distribution: The introduction of new low sulphur gasoline and diesel formulated products (required by both the US EPA and Environment Canada) has created potential distribution problems never before encountered by the oil industries of either country. Ultra Low Sulphur Diesel (ULSD) with a sulphur content of 15 ppm must be available at the consumer level on or before October 15, 2006 in both countries. The danger here is that ULSD will share the same distribution modes as LSD whose sulphur level has a maximum of 500 ppm and this could result in cross contamination of ULSD. Should this happen then the contaminated ULSD must be returned to the refinery or sold as LSD, thereby creating outages for ULSD and boosting prices**. Rating 7**

Overall we see the fear factors in the price equation as a neutral 5 whereas if this exercise were conducted this time last year we would have been in the range of 8 or higher.

- **<u>Summary – Best Case/Worst Case Forecasts</u>**

  BEST CASE:
  - Crude averages $56.00/bbl
  - Canadian dollar averages $0.91
  - Refining margins average $0.12/L

WORST CASE:

- Crude averages $80.00/bbl
- Canadian Dollar averages $0.84
- Refining Margins average $0.25/L

SAFE BET:

- Crude averages $65.00/bbl
- Canadian Dollar averages $0.89
- Refining Margins average $0.17/L

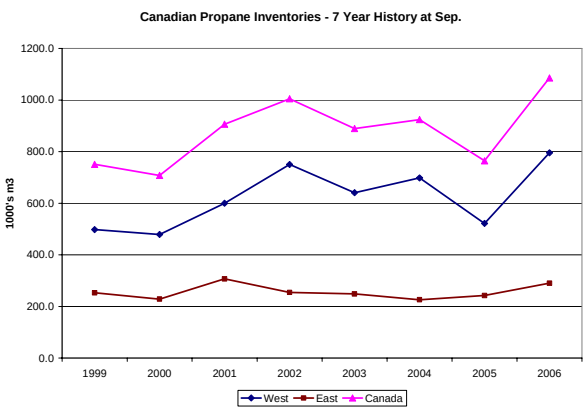
The Net Result – Our Take

The following are the net changes to expect using the "safe" scenario, barring an unusually long or cold winter (Bold is the change in 2007 vs. average rates to date in 2006):

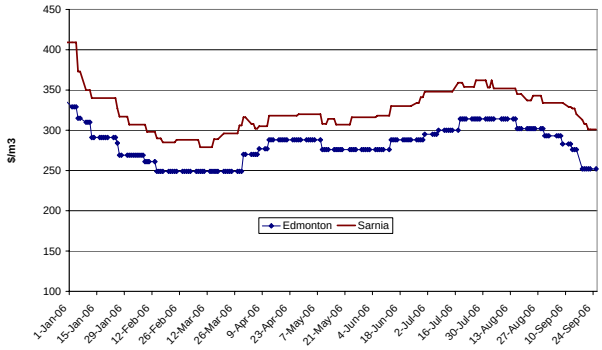
Product	East	West
Gasoline	**+3.7%**	**+3.3%**
Diesel	**+1.0%**	**+3.4%**
Fuel Oil	**+1.0%**	**+3.4%**
Jet Fuel	**+1.5%**	**+1.5%**
Bunker	**+1.0%**	**N/A**

PROPANE

While propane prices are influenced by many of the same indicators affecting other petroleum fuels, the cost of natural gas impacts propane prices the most. Other things to watch are the extent of the agricultural drying season and propane inventories. When we look at propane inventories and compare September 2006 with September of the past 7 years, you will see a startling difference: Inventories are well above any of the past year's levels and this can be attributed to unseasonably warm weather this past winter and a modest agricultural drying season. See the following chart:



The next chart illustrates the changes in price so far this year at Edmonton and Sarnia, the two main supply points in Canada:



Our expectation is that propane gate rates this year will average $0.33/L in Sarnia and $0.29/L in Edmonton (with Sarnia affecting points from Ontario and east and Edmonton affecting points from Manitoba and west).

For the coming year we expect propane rates to average $0.03/L less at both points, therefore you should budget for a cost reduction of 9% at Sarnia and 10.3% at Edmonton (raw price reduction).

LUBRICANTS

The key component in the price of lubricants is the base oil cost -- which the oil companies claim is crude oil price dependent. In the past year base oil prices have increased six times which not only factors in the jump in crude but also the near catastrophic damage caused by hurricanes on the Gulf coast. The introduction of ULSD requires engine manufacturers to install both catalytic converters and soot traps, which in turn forces a reformulation of crankcase oil specifications. As a result, Exxon/Mobil will increase engine oil prices in the US by 10 to 15% while conventional lubes and gear oils will go up by 3 to 5%. With the anticipated stabilization of crude prices, we look for this trend to dissipate with prices increasing by a maximum of 5% in the next year.

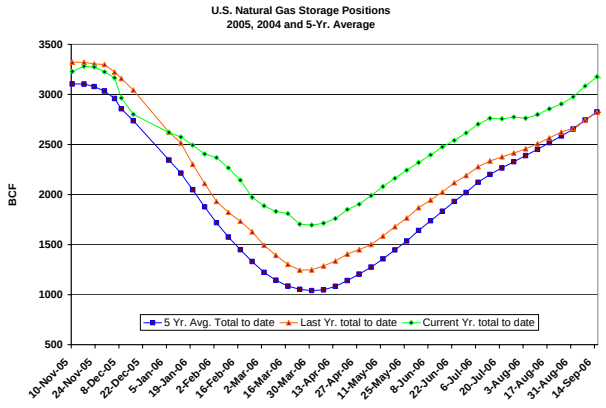
NATURAL GAS

Natural gas costs are made up of three components: supply from the wellhead, transportation to the utility franchise area, and distribution within the utility franchise area to your facility.

Gas Supply

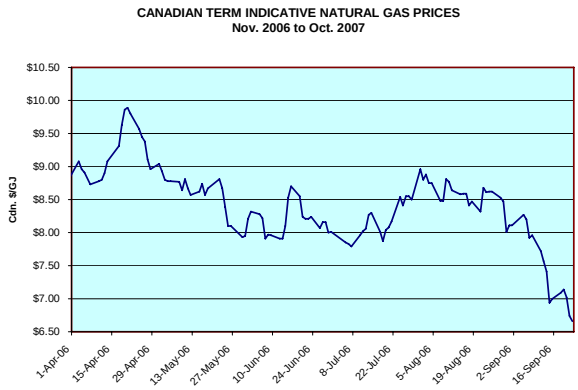
A year ago, the destruction or damage of a large number of gas rigs in the Gulf of Mexico and then the flooding of the Henry Hub (the hub that directs natural gas to different parts of the U.S.), caused natural gas prices to soar. At that time there was little reason to be optimistic for any price reversal as supplies were in a shambles, we were heading into winter, and crude oil prices were on the rise.

Then, in a reversal of Murphy's Law, everything that could possibly happen to ease prices did happen, with the most recent being cancellation of the forecast for an active hurricane season and a call for a milder than normal winter – yet again. Natural gas inventories in the U.S. (the key price-driving market) are 13% above the levels this time last year and 12.5% above the 5-year average. The following trend chart shows these versus the past.



Despite very healthy storage injections all season, natural gas prices initially had difficulty dropping to levels that would be typical of such a supply surplus. The reason was that crude oil prices were escalating due to growing tensions in the Mid-east between Israel and Lebanon and with Iran. Those tensions have now eased and the hurricane season was cancelled allowing prices for gas to decline by unprecedented amounts.

The following charts the available forward-year term prices at Alberta over the past few months:



The following are our supply cost projections by region across Canada and in the U.S.

United States: The NYMEX futures exchange remains the main driving indicator of U.S. gas prices. The average NYMEX price of gas for 2006 (as of mid-Sep) has been $6.95 US/MMBTU. We expect that average to be $6.65 by the end of this year. The price in 2007 should average $7.20 so, if you plan on a supply price increase of 8.2% you should be safe. Distribution and transportation rates should change by 3% to be in line with cost of living indexes.

Alberta to Quebec: Alberta border spot-prices impact customers from Alberta, Saskatchewan, Manitoba, Ontario and Quebec. Based on actual Alberta border spot-prices so far this year, we expect monthly spot-prices in 2006 to average $6.00/GJ. Given the current market fundamentals and term rate offerings, a conservative approach would put rates for 2007 at $6.55/GJ which is about 9% more than the average projected for 2006.

British Columbia: B.C. prices are not based on Alberta indicators but on the Sumas indicator (the main pricing point in B.C.). While Sumas is still guided by New York futures, based on local factors there is a basis differential that can change sharply. And because there is no storage in B.C., prices are prone to increase during cold weather. As of Sep. 1, 2006, prices at Sumas averaged US$6.07/MMBTU. We expect the average for 2006 to be $5.75. Barring unusually cold weather in B.C. this coming winter we would expect the average price in 2007 to be US$6.80/MMBTU or about C$7.16/GJ, i.e. an increase of 12%. Please keep in mind that the B.C. market is load-following, hence if your gas is used primarily in the winter months your price will be more heavily based on the higher winter price of gas. However, notwithstanding that your price will average out to a higher rate, the same percentage increase should still be applicable.

New Brunswick/Nova Scotia: Natural gas supply from Sable Island -- which is ultimately intended to feed the North Eastern US markets -- is largely priced off the Dracut index which to date in 2006 (as of September.) has averaged US$8.50/MMBTU. We expect the year-end Dracut index to average US$8.25/MMBTU. Given the fact that Dracut is heavily impacted by the monthly NYMEX postings, we would expect average Dracut postings in 2007 to be US$8.92/MMBTU which represents an increase over 2006 of 8.2%.

Canadian Transportation and Distribution

Distribution and transportation charges are beginning to make up a lesser percentage of the total bill due to the rising cost of the commodity itself. Transportation will still make up a greater percentage the further east you go, due to the fact that the gas is sourced from western Canada. Transportation in Nova Scotia and New Brunswick is rolled into the delivery tariff and those tariffs account for about 10% of the total bill in those provinces.

We expect that transportation and distribution charges will be limited to the cost of living increase, or about 3%.

The Net Result

Putting all this together, you should expect the following:

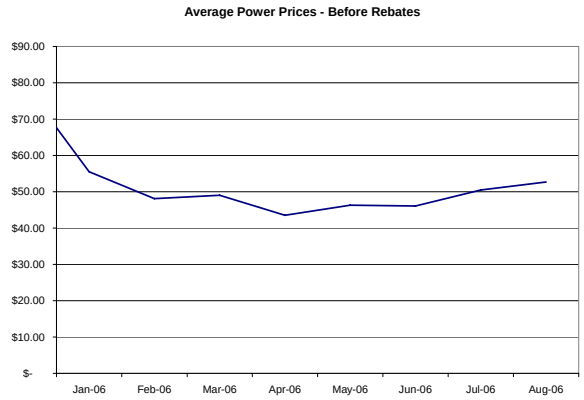
Province	Trans/Dist.	Supply	Total
B.C.	+3.0%	+12.0%	+10.2%
Alta.	+3.0%	+ 9.0%	+ 8.3%
Sask.	+3.0%	+ 9.0%	+ 8.3%
Man.	+3.0%	+ 9.0%	+ 8.0%
Ont./Que	+3.0%	+ 9.0%	+ 7.8%
N.B./N.S.	+3.0%	+ 8.2%	+6.7%

Note: It is important to note that these are conservative estimates and only apply to customers who have not put hedging arrangements in place with third-party marketers. For those customers involved in direct purchase contracts, your supply costs will vary depending on the amount hedged and the price.

ELECTRICITY

Ontario: Ontario power rates are established through an open-market hourly bidding process and so far this year, the hourly prices have averaged $48.98 per MWH (as of Aug. 30). We expect the average hourly price by year end to be $47.60. Compared to last year, prices have been markedly lower which is a direct result of a very mild winter, a lack of sustained heat and humidity this past summer and weakened crude oil and natural gas prices.

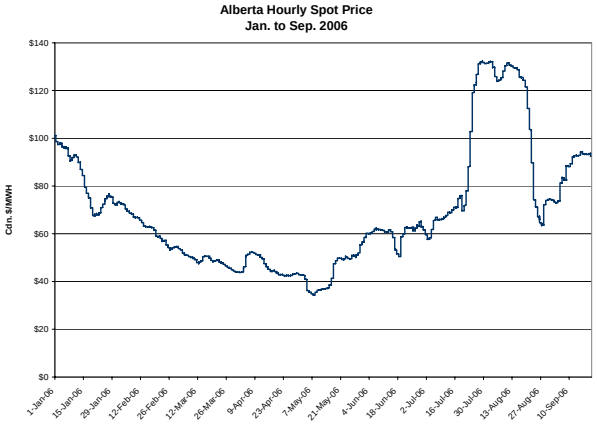
See the following 30-day average price trend chart:



The hourly bidding process for power in Ontario sets prices based on the highest bid accepted each hour. Those high bids, necessary to meet peak demands, will typically come from the fossil fuel-using generation plants and those plants were less expensive to run in the summer of 2006 because of lower energy costs. In addition, due to reduced demands this past summer, many of the hourly prices will have been set by less expensive power generators. In 2007 we expect prices to average $60.00/MWH, assuming weather patterns are normal. Therefore budgeting on a supply cost increase of 26% would be wise.

Power supply costs this past year represented about 2/3 of the total power bill -- and considering transmission and distribution costs -- they will likely rise by the cost of living (3%) with the net increase in 2007 being about 18%. It is important to note that this cost estimate is for spot based consumers only. Many companies will have fixed their power prices in 2007 and their cost increase projection will have to take that fixed price into consideration. As such, the total expected increase may be considerably less and it could possibly be a cost reduction.

Alberta: Power prices in Alberta are open-access and continue to be heavily influenced by natural gas rates because natural gas is the primary fuel used in new generation projects as well as to meet peak electricity demands … although Alberta's base power production is still generated using coal. Alberta experienced a high demand summer and as such power prices were accordingly quite high. The following chart shows the 30-day average power prices in Alberta so far this year:



The average hourly price in 2006 as of mid-September was $68.47 per MWH and we expect the average by year end to be $70.00 per MWH. For 2007, barring unusual weather patterns, we expect costs to average $65.00/MWH hence a reduction in cost of 7.0% over 2006 should be planned. As supply represents about 70% of the total power bill, and as transmission and distribution costs should not rise by more than 3%, the net impact to most customers will be costs that are down by 4%.

Nova Scotia: We recommend budgeting for a cost of living adjustment of 3% as Nova Scotia Power does not project any major increase at this point and does not believe any change would take effect until April 2007.

PEI: Maritime Electric recently passed through a rate increase of 3.35% in July 2006 and it is not anticipating a further increase for the next 18 months.

Newfoundland & Labrador: A rate increase of 6.7% should be budgeted for 2007 based on Newfoundland Power's pass-through rate hearing.

New Brunswick: N.B. Power already implemented a 11.6% cost increase in April 2006. Given the reduced fuel costs now as compared to earlier this year, we do not expect any more than a cost of living adjustment in 2007; therefore conservatively plan on 3%.

Rest of Canada: As the rest of Canada remains fully regulated, power price increases will be nil to modest. We expect no change in rates but suggest planning on a 3% adjustment to be conservative.

CHEMICALS

Output of the chemical industry in the U.S. during the first quarter of 2006 was quite strong and producers were able to recapture much of the lost output that occurred during the Gulf Coast storms of 2005. With energy prices rising to record levels in the first half of the year most producers were able to maintain margins by increasing costs. However at the beginning of the second quarter there were signs of weakness and some lower prices were negotiated.

Further weakness in energy prices in the third quarter caused many buyers to back away from immediate purchases and reduced their inventories in anticipation of lower prices to follow. Buyers no doubt will be monitoring the declining energy prices and will be looking for price concessions. On the other hand, producers will be defending their prices and short-term margins.

This trend is expected to continue to the end of the year with some strength beginning to show as we enter the first quarter of 2007. The following are our projections by region (2007 rates vs. 2006 rates):

Province	Petro Chemicals	Organic Chemicals	In-Organic Chemicals
NFLD.	+8%	+8%	+8%
P.E.I.	+8%	+8%	+8%
N.S.	+8%	+8%	+8%
N.B.	+8%	+8%	+8%
Que.	+5%	+5%	+5%
Ont.	+5%	+5%	+5%
Man.	+8%	+8%	+8%
Sask.	+8%	+8%	+8%
Alta.	+5%	+5%	+5%
B.C.	+5%	+5%	+5%

COMPRESSED GASES

Most air separation plant generated gases, such as nitrogen, oxygen and argon have supply contracts with rates tied to the three main components that make up the cost of the gas. These components and their weighting in the raw price are typically as follows: electricity - 40%, transportation - 30%, and labour - 30%.

When looking at projected average rates of these indicators for 2006 and comparing them against the same averages for 2005, the following is the result:

Finished Petroleum Products	+2%
Electricity (ON)	-17%
Electricity (AB)	-2%
Electricity (Other Prov.)	+3%
Labour	+3%

Based on those indicators, the following are our projections:

Ontario	-3.4%
Alberta	+1.1%
Elsewhere	+2.6

Carbon Dioxide: CO2 supply is a by-product of the chemical industry and continues to undergo increases in demand from the oilfield projects of northern Alberta. Conservatively speaking we would expect the increases in demand, cost of living, and the slight increase in transportation costs to cause a price hike of 4% in 2007.

WASTE DISPOSAL

Fuel costs will remain a factor in transportation costs (haul rates) in 2007. In addition landfill rates determined by both the municipal and private sectors will increase due to greater costs related to the rapid decline in availability of low cost landfill space. Government controlled sites are also increasing rates to encourage *"all"* to recycle as much waste material as possible.

Non- Hazardous Solid Waste

Transportation rates from coast to coast will see an increase of 3% minimum, which will be simple to calculate on roll-off services. However, question any major increase in front-end services because these costs include both transport and landfill rates in one fixed cost. Waste disposal companies have been known to "round up" any combination of increases in costs to a convenient billable number, an amount which often exceeds an acceptable monthly change in costs.

Transfer Station rates in most major cities are expected to increase anywhere from $2.00 to $5.00 per tonne on average. This and government legislated increases in Quebec of 15-18% in 2006 will impact on both roll-off and front-end type container services in that province, and to a lesser but still notable degree in the Maritimes, Ontario and British Columbia, with the prairies seeing the least overall impact.

Hazardous Waste:

The increased cost of energy this year will once again have an effect on processing costs along with the obvious increase in transportation in 2007. Over the next few months the major hazardous disposal companies could attempt to increase rates from 10-15% on services and processing costs. However increased competition in this sector from the west may soften this situation to a more realistic 2-4%. This is due to the impending battle between two of the majors to maintain market share. We also believe that pressure from the automotive sector to hold costs could be a factor that the balance of the industry could benefit from.

Bottom line:

Non-Hazardous – look for a 3% increase in cost

Hazardous – look for a 5% increase in cost

EN-PRO INTERNATIONAL INC.
174 Simcoe Street North
Oshawa, Ontario, L1G 4S9
www.en-pro.com

Phone: (905) 686-6400
Fax: (905) 686-6439
Media Relations: (416) 490-6961

EN-PRO INTERNATIONAL INC.

Your Energy Management and Commodity Price Professionals Since 1985

Celebrating 21 Years of Service in 2006