EN-PRO INTERNATIONAL INC.

WEEKLY PETROLEUM UPDATE

Thursday May 11, 2006

US INVENTORIES: May 05, 2006

	Inventories (MM bbls)
Crude	UP 0.3
Gasoline	UP 2.4
Distillates	UP 0.2

Refinery Utilization: 90.20% UP 1.4%

	% Demand
Gasoline	DOWN 0.1
Distillates	DOWN 0.8
Jet Fuel	UP 7.0

Refinery Production Versus Demand

Product	Production	Demand	Production Shortfall
Gasoline	8.9	9.1	0.2
Distillates	4.0	4.1	0.1

Rack Prices

Location	5/11/06	5/04/06	Change
Halifax	$0.6850	$0.6520	$0.0330
Montreal	$0.6900	$0.6610	$0.0290
Toronto	$0.7000	$0.6680	$0.0320
Winnipeg	$0.6380	$0.6170	$0.0210
Edmonton	$0.6560	$0.6350	$0.0210
Vancouver	$0.7150	$0.7100	$0.0050

North American Rig Count for the week ending May 05, 2006

[This is an indicator we use to measure the likelihood of crude prices remaining over the base of $45/bb]

US	1,625.0	UP 22%	versus last year
Canada	167.0	DOWN 14%	versus last year

Comments

On page one of "The Rules of the Game" it clearly says that if the inventory report shows an increase in crude, gasoline and distillate levels then crude and rack prices should fall in response. Add to that the fact that refinery utilization increased by 1.4% to 90.2% and that gasoline demand was 0.1% below last year's level, then this is a no brainer game. Prices had to fall. Not so. Hours after release of the EIA report prices of all three commodities began to rise to eventually close with crude up $1.41/bbl, Gasoline up $0.1228/gal and Distillates up $0.0696/gal. Why did this happen?

In last week's report one of the key factors in the pricing equation was identified as the lack of excess refining capacity. The same day as the release of this week's inventory report two US refineries ran into problems: Valero's 243,000 bpd in Texas and ConocoPhilllip's facility rated at 263,000 bpd in New Jersey. Both of these refineries are in areas of the US where it has been predicted that supply of ethanol gasoline will be difficult even if all refineries were in full operation. We have mentioned numerous times over the last few months that the transportation infrastructure for supply of ethanol will not be in place in time for the Memorial Day weekend and it appears that the traders on the NYMEX concur. The closure of these two refineries at the critical build up time forced their hand and the futures prices increased.

There has been a flurry if not a blizzard of recommendations from political interests in the US to stem the price surge at the politically visible gas pump. Most of these have been offered as stop gap measures but one finally is worth following through on. For the past year we have been consistent in our contention that the price of crude has been artificially supported by unqualified speculators joining the crude oil futures game. We suggest that the inflation level is currently $20/bbl. The majority of the trading occurs on the NYMEX but there is increasing competition from on line trading from the Intercontinental Exchange, (ICE). Trading on the NYMEX is regulated by the Commodity Futures Trading Commission but this Federal agency has no access to data transacted on line. With no watch dog to control the feeding frenzy we are not surprised at the millions of dollars being throw into the ante pot. The question to ask is the high cost of crude a result of the physical requirement of the commodity or the paper requirement of the traders? Probably a little of both right now but pulling in the reins of the latter would certainly bring down the price of the former and we are relieved to see a bill being introduced to do just that.

The current on-road diesel market in Canada is being directed by a relatively new player in the market that being Flying J Truckstops (FJ) out of Ogden, Utah. FJ who are supplied by Shell, currently have only 4 active sites: Vaudreuil in the Montreal area, Napanee and London in Ontario and Edmonton. They have two currently under construction at Calgary (Barlow and Deer Foot) and Winnipeg (Headingly) and have applications in for the QEW in the Niagara/Hamilton area and Thunder Bay. Shell have also confirmed that FJ will be taking over their cardlock site in Toronto (Dixie and Hwy 401). Officially they plan to have 18 locations across the country in the next two years. Unofficially the number is 44 which may include a virtual rebrand of existing Shell large volume cardlock locations, retaining this mode of transaction while adding full service capabilities.

As FJ facilities are virtually the same throughout North America, they are extremely popular with the driving fraternity with their large, well lit paved parking, good food and clean showers. FJ do not look on diesel as a profit centre but basically as a loss leader to get traffic in their restaurants and drivers stores where the margins are significant. This Shell/FJ alliance has caught all other suppliers off guard as they realize the popularity of the chain. As none of them have a full truckstop network to compare with FJ they are fighting back in the form of price. The fear is that if an inter provincial carrier starts to use say Edmonton, the drivers will insist on using the other locations across the country as they come on stream thus eroding their cardlock volume base.

Using price as a lure is exemplified in Edmonton. Petrocan have 6 sites in the city where all are priced at the same level except the Yellowhead location that is closest to the FJ site where the price is lower by $0.015/L. Note that the Petrocan price we show in the cardlock table for Edmonton is the Yellowhead price. Esso have taken even bigger steps in Edmonton by designating the city as a whole as a separate market. Esso's Edmonton cardlock price today was lowered by $0.019/L and is now almost $0.03/L lower than Calgary.In Ontario Esso have become even more wary the FJ presence by treating the Montreal to London corridor as a one price market.

We foresee the same price war or volume protection scenario spreading as more FJ sites come on line. Something to look forward to for a change.

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