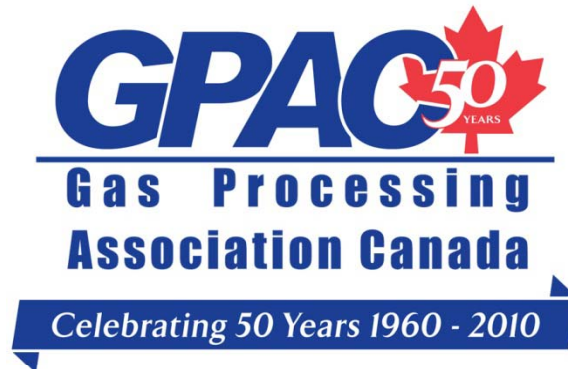


Current M&A Trends...

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# Sayer Energy Advisors' Perspective on

Presented to



17<sup>th</sup> Annual Joint Conference

November 3, 2010



# Sayer Energy Advisors

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- Over a 20 year history of oil and natural gas industry M&A services
- Completely independent of the public markets – we do not get involved in financings
- Managed by individuals with varied backgrounds, each with significant related experience

# Sayer Energy Advisors

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## **Corporate Advisory Services**

- Divestitures, Mergers, Acquisitions
- Valuations and Fairness Opinions
- Expert Witness Assignments

## **Industry Publications**

- Well-known for Canadian M&A market analysis through our quarterly publication
- Publish complete Canadian oil industry M&A and financing information
- Only source for complete listing of current Canadian oil & natural gas industry asset and corporate dispositions



# M&A IN 2010

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- 2009 was a “*Buyers’ Market*”
- “*Buyers’ Market*” continued well into 2010
- A significant number of large property packages; (Cenovus, ConocoPhillips, EnCana, EOG, Nexen, Suncor, Talisman and TAQA)
- A high focus on property/asset transactions
- Vendors need to have realistic price and value expectations, especially for natural gas weighted properties or processes will go “*no sale*”
- Technology is playing an important part in M&A
- Foreign companies are very interested in Canadian oil and natural gas

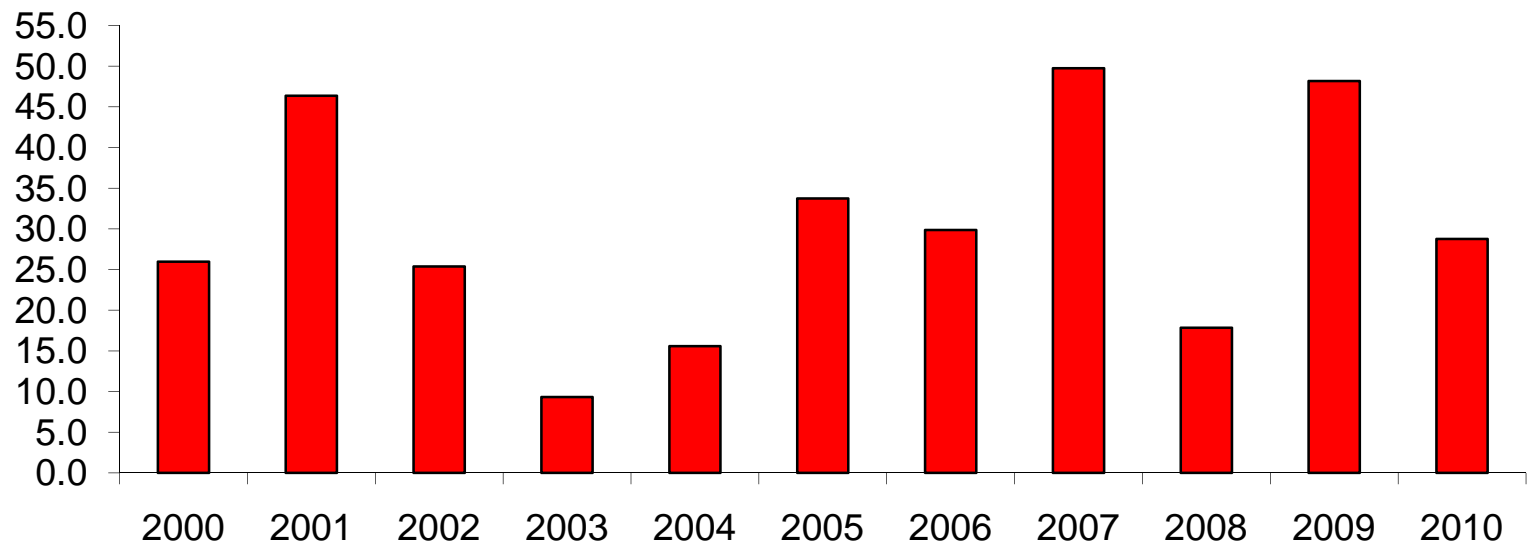
# BUYERS' MARKET TO CONTINUE

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- Weak balance sheets.
  - Commodity prices remain variable.
    - Crude oil price high.
    - Natural gas prices relatively low.
  - Equity markets selective.
    - Flow through available to some.
    - “*Hard dollars*” hard to find.
  - High debt levels.
    - Conventional bank debt plus strong subordinate and mezzanine debt markets.
- Need for companies to sell properties to improve balance sheets and finance growth.

# VALUE OF M&A ACTIVITY

- In 2007 the total value of M&A transactions reached the highest level ever, with 2009 not too far behind.
- In 2010 because of the lack of mega mergers (Suncor-Petro-Canada, Shell Canada), it will be difficult to reach those levels.



# M&A Price “Roller Coaster”



# M&A Price “Roller Coaster”

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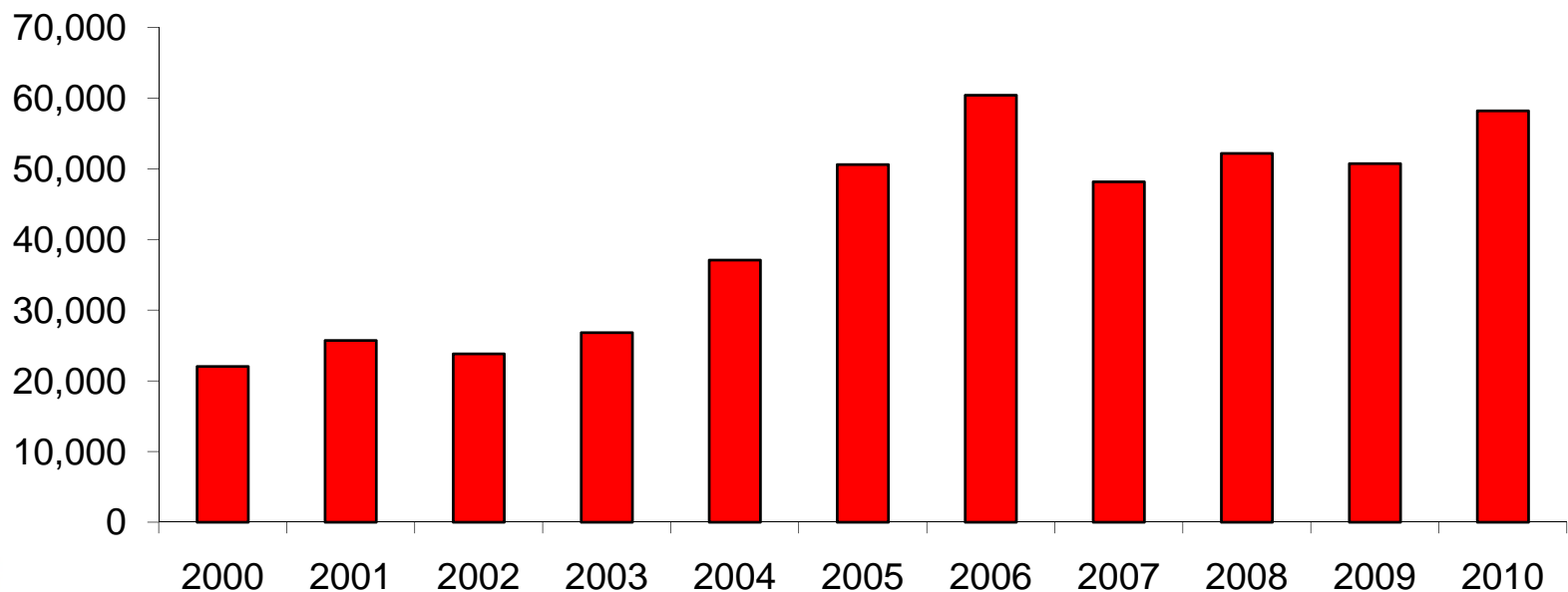
- M&A prices respond quickly to market dynamics
- Rise and fall with increase or decrease in commodity prices
  - Rapid rise in 2008 in response to a rapid increase in the price of both oil and natural gas
  - With declining natural gas prices in 2010 this is having an impact on the acquisition prices being paid
- Rise and fall in response to government intervention and world events
  - Instantaneous fall in October 2006 in response to federal government’s announcement regarding changes to tax treatment of trusts
  - Instantaneous fall in October 2007 in response to provincial government’s announcement regarding changes to the Alberta Royalty Framework
  - Steady fall in October 2008 in response to the loss of faith in the world’s financial system





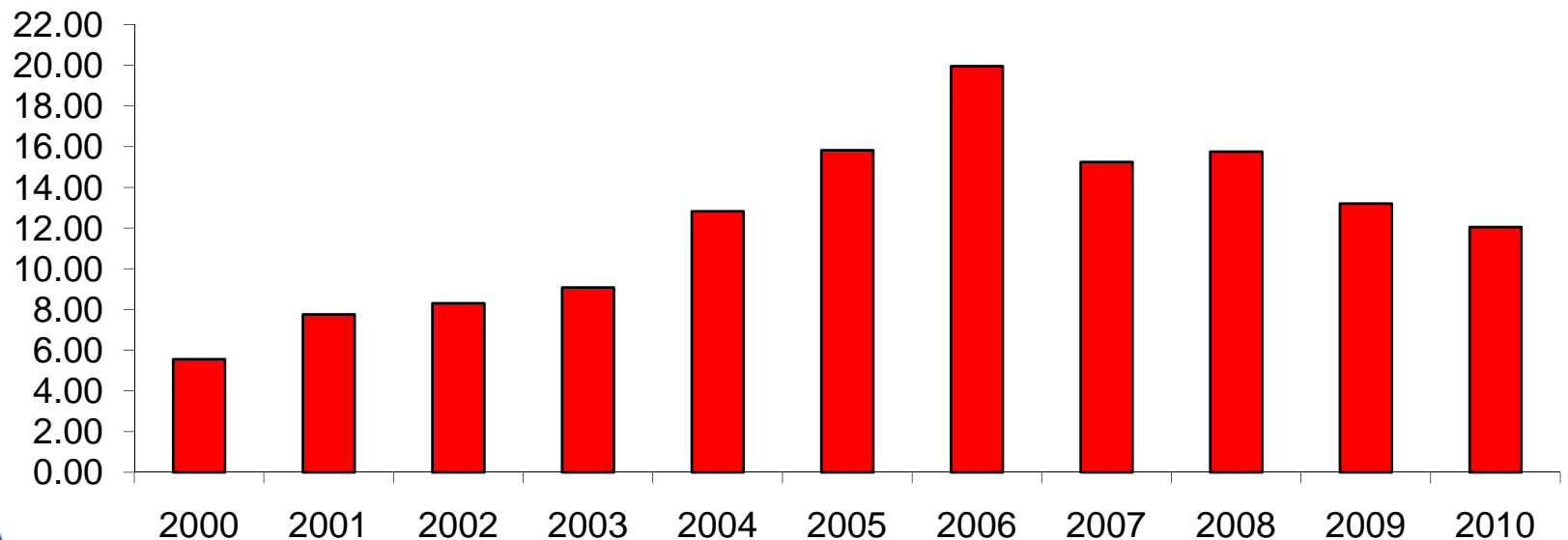
# PRODUCTION ACQUISITION PRICES

- The median daily production acquisition price (\$/boe/d) has rebounded in 2010 and is close to the record level seen in 2006. The higher production price is being driven by high priced oil-weighted transactions.



# RESERVES ACQUISITION PRICES

- The median reserves acquisition price for proven plus probable reserves (\$/boe) has been in decline since 2008, largely driven by continued depressed natural gas prices



# Recent Acquisition Prices

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- Production and reserves acquisition prices followed a downward trend from early in 2006 until early in 2008
- Prices rose in early 2008 in response to a dramatic rise in the price of oil and natural gas and dramatically fell in late 2008 and most of 2009
- Prices continue to be high in 2010 for oil weighted acquisitions (especially resource plays such as the Bakken, Cardium and Viking)
- Conventional natural gas weighted transactions are fetching much lower metrics than oil



# 2010 & 2009 M&A Activity

Time Period	Total M&A Enterprise Value (\$billions)	Total Production Sold (boe/d)	Median Price All Deals (\$/boe/d)	Median Price Oil Deals (\$/boe/d)	Median Price Gas Deals (\$/boe/d)
<b>Q3</b>	\$9.3	105,260	\$57,578	\$66,486	\$52,901
<b>Q2</b>	\$15.6	152,672	\$57,679	\$68,905	\$48,390
<b>Q1</b>	\$3.8	25,743	\$63,458	\$96,132	\$57,624
<b>Total YTD</b>	<b>\$28.8</b>	<b>283,675</b>	<b>\$58,215</b>	<b>\$68,514</b>	<b>\$51,261</b>
<b>Total 2009</b>	<b>\$48.2</b>	<b>447,043</b>	<b>\$50,752</b>	<b>\$69,875</b>	<b>\$38,091</b>

# Natural Gas M&A Activity

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- There have been a number of large natural gas acquisitions announced in 2010, with more to occur because of the number of natural gas weighted packages currently being marketed. Some of the notable transactions are the following:
  - Apache/BP assets for \$3.4 billion
  - Progress/Suncor assets for \$390 million
  - Direct/Suncor assets for \$375 million
  - Skope et al/Cenovus assets for \$165 million
- Because of the amount of product available and the amount of negativity toward natural gas it is likely that some of the other packages on the market will go “no sale” or will sell for low prices

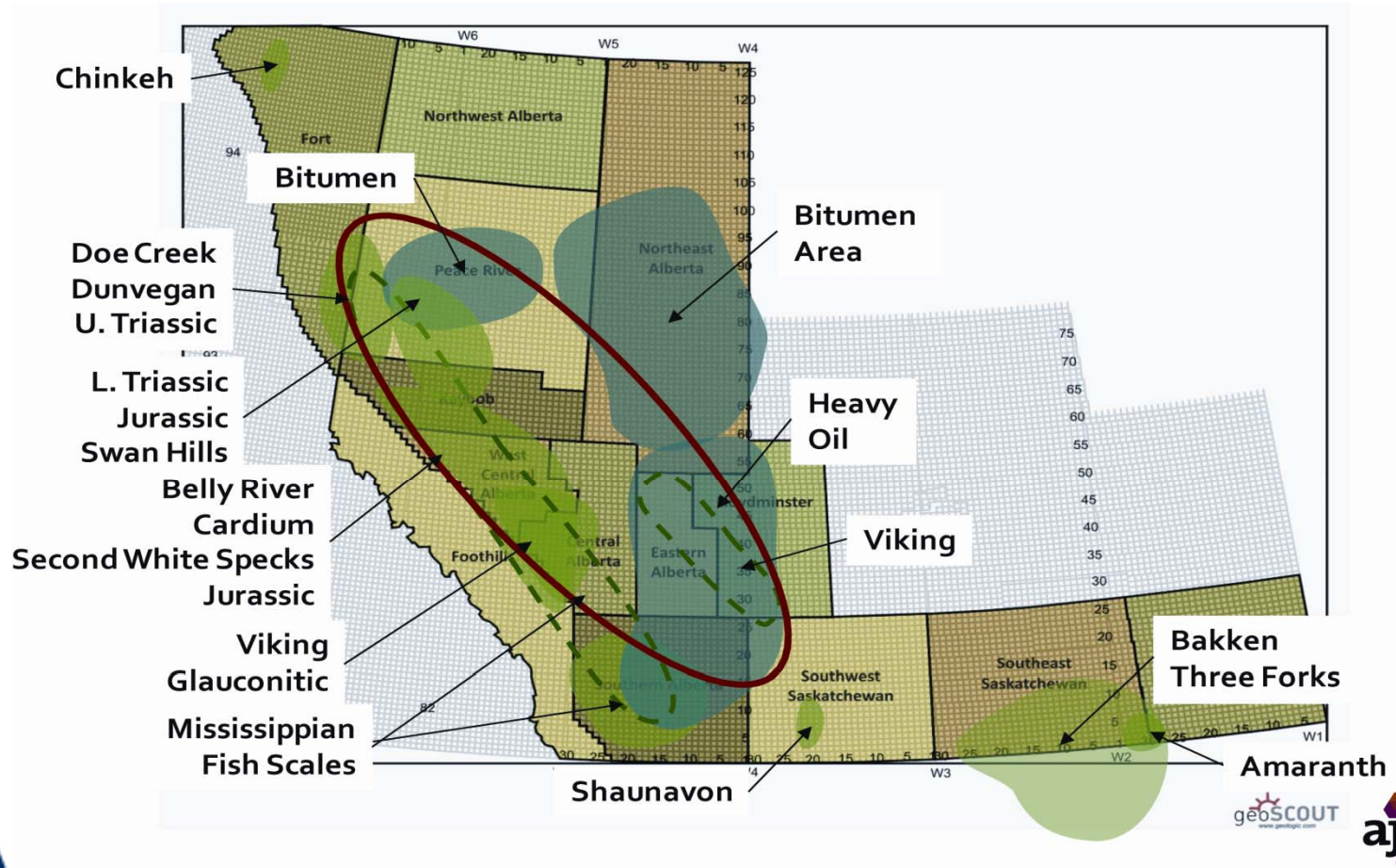


# Technology and M&A

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- High oil prices are leading to significant interest in light oil resource plays
- Many of these reservoirs were discovered 50 years ago but technology was lacking to extract the oil
- Horizontal drilling and multi-stage fracturing increase the volume of rock accessible to production
- These techniques were initially applied to the Bakken Formation in Southeastern Saskatchewan and are being applied to other oil bearing formations, most notably in the Cardium and Viking
- Improved technology is increasing recovery factors and the potential size of oil fields

# Technology and M&A



Source AJM Petroleum Consultants

# Technology and M&A

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- There have been a number of acquisitions targeting oil resource plays notably in the Bakken, Cardium, Lower Shaunavon and Viking over the last 18 months

Crescent Point acquiring Gibraltar, Shelter Bay, TriAxon, Wave, Wild River and a private Alberta company

Daylight's purchase of West

Legacy acquiring Athena, CanEra, Connaught, Medora, Renegade and Villanova

Penn West buying Reece

Petrobank merging with TriStar to form PetroBakken

PetroBakken purchasing Berens, Result and Rondo

Whitecap's takeover of Onyx

Wild Stream acquiring Dorado as well as assets from Bonterra





# Technology and M&A

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- With Western Canada predominantly a natural gas basin (75%) the supply of oil weighted opportunities is low while the demand is high due to the current price of oil
- The use of horizontal drilling and multi-stage fracturing are also being applied to natural gas reservoirs especially ones which are “liquids rich”
- These types of natural gas reservoirs are predominantly located in Central Alberta, the Deep Basin areas of the Western Canadian Sedimentary Basin as well as on the Peace River Arch

# Recent “*Rush*” of Foreign Buyers

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- To date in 2010, foreign based companies have acquired approximately \$13 billion in Canadian oil and natural gas assets and companies. This is roughly 45% of the total Canadian M&A value of just under \$29 billion
- Canada and its financial institutions have been successful in weathering the financial crisis, making this country an attractive place to invest
- This stable financial environment gives them the confidence to invest significant amounts of money in securing oil and natural gas assets

# Recent “*Rush*” of Foreign Buyers

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- Some of the notable transactions so far in 2010 have been the following:

Sinopec/ConocoPhillips Syncrude Interest for \$4.7 billion

Apache/BP assets for \$3.4 billion

Total/UTS Corporation for \$1.5 billion

China Investment/Penn West assets \$817 million

Harvest acquiring two assets packages for \$525 million

Mitsubishi/Penn West JV

STX/EnCana assets for \$152 million





*Buyers are showing up in Calgary from all around the world.*

*Word is out that our banks are secure and as a result there is strong interest from around the world for Canadian oil and natural gas properties, large and small.*



*Country Sayer has done business with*

*Country active in Canadian oil patch*

# Unlikely Buyers?

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*There is a lot of money  
in the hands of many  
individuals in places like China.*

*Many of these people were born at  
night ... but not **last night**.*

*They made their money by being  
smart. Many of them understand  
that North American technology is  
not yet widely utilized in the world.*

*They are looking at buying things  
such as Canadian heavy oil assets  
to bring their money into our safe  
fiscal haven and to learn about our  
technological advancements.*

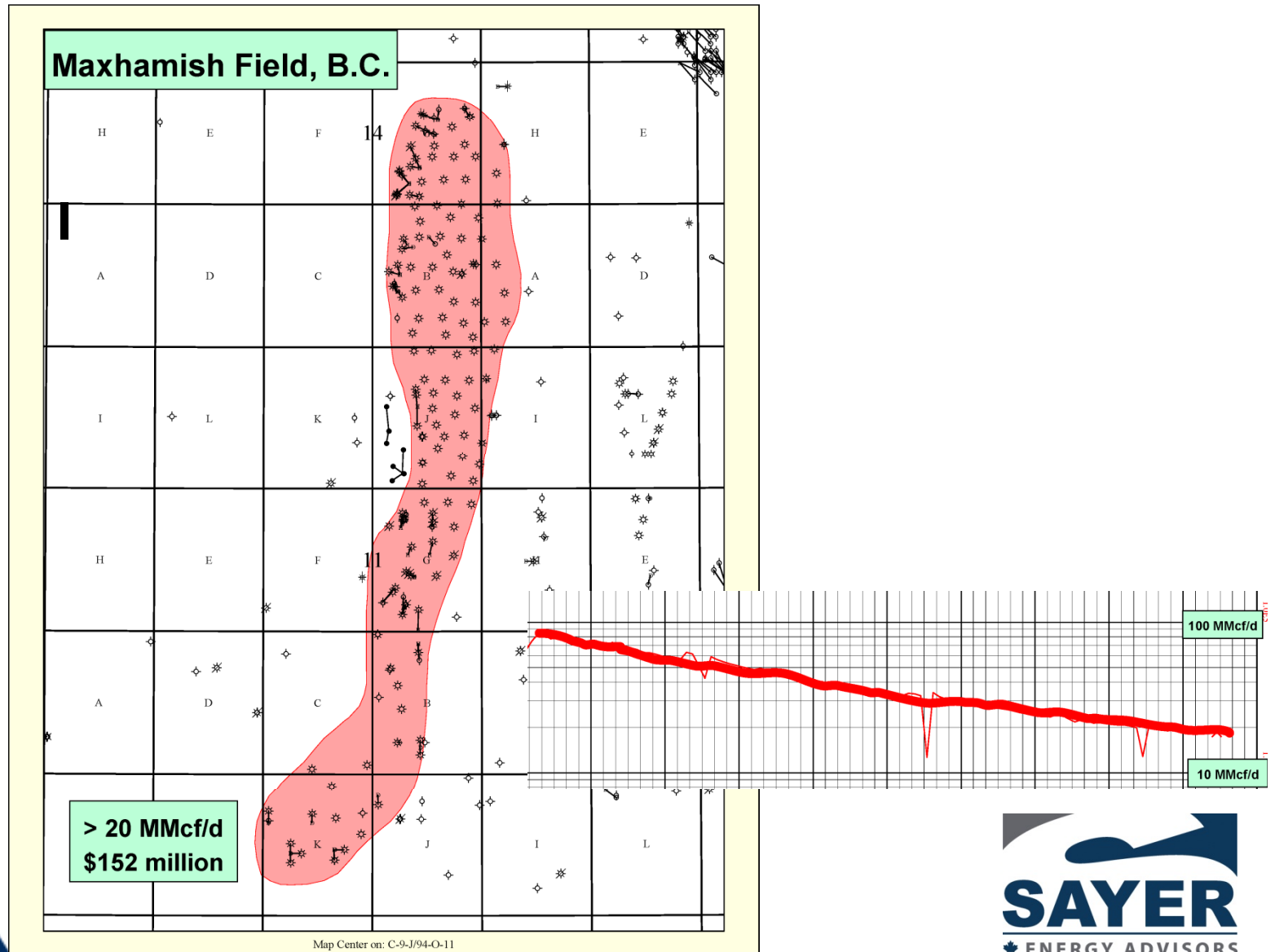


# Among Other Things, They Want Canadian Expertise!

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# Purchase of Maxhamish Field by Korean Company ... Why?





*Proposed Kitimat, B.C. LNG terminal*  
*Destination of LNG tankers leaving Kitimat?*  
***Korea, Japan, China***





# OUTLOOK FOR 2011

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- The “*Buyers’ Market*” will continue into 2011
- If natural gas prices continue at these levels or weaken, vendors will need to have realistic price and value expectations, especially for natural gas weighted properties or processes will go “*no sale*”
- The amount of large property packages will be lower in 2011
- There will be a higher percentage of corporate transactions in 2011
- Technology will continue to be a catalyst for M&A activity
- Foreign interest in Canadian oil and natural gas will continue

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