

Inside Insight Into M&A Transactions

The View from the Other Side of the Desk

Presented to the P.A.D.A. Energy Society:
Petroleum Acquisition & Divestment Association



October 12, 2010

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Purpose of this Presentation

Educate

Enlighten

Entertain



Courtesy of
MyFunnyWorld.net

Disclaimer

This presentation uses real-life examples to provide insight into what may or may not be encountered during the course of an actual M&A transaction. Use of these examples outside of this context could prove to be harmful to company's treasury.

Company names have been removed to avoid accusations of using this forum as unsolicited advertising and also to protect the identities of any guilty or innocent parties. Because we do not want to offend anyone, every effort has been taken to avoid using examples from any of our competitors. If you recognize an example from a previous mandate from any other agent please notify them and let them know that they should be proud that Sayer mentioned them in a public presentation.

All references to gender are intended to be universal. For example he=she, she=he, him=her, her=him, what's mine is mine, what's yours is ours, etc.

The opinions presented are those of the presenter but please direct critical comments elsewhere. I am easily offended.



The Buyer's Point of View



Trying to Sell a Customer Something He Doesn't Want to Buy

ISSUE

A salesman trying to sell the customer something that the salesman **wants to sell** rather than something that the customer **wants to buy**.

INSIGHT

It is the customer's money, damn it! Let him spend it on something that **he wants to buy** or he will go somewhere else to buy it.

Trying to Sell a Customer Something He Doesn't Want to Buy

“The best way to fail in an attempt to sell something is to try to force a customer to buy something that he does not want to buy along with the item that he really wants to buy. He will put little value on the unwanted item.

This item could have positive value in someone else's opinion.”



Trying to Sell a Customer Something He Doesn't Want to Buy

ISSUE

A salesman trying to sell the customer something that the salesman **wants to sell** rather than something that the customer **wants to buy**.

EXAMPLE

If you go into a fine clothing store looking to buy a shirt and the salesman tries to sell you a shirt, pants, jacket shoes you might just go to the store next door to buy what you really wanted, a shirt.

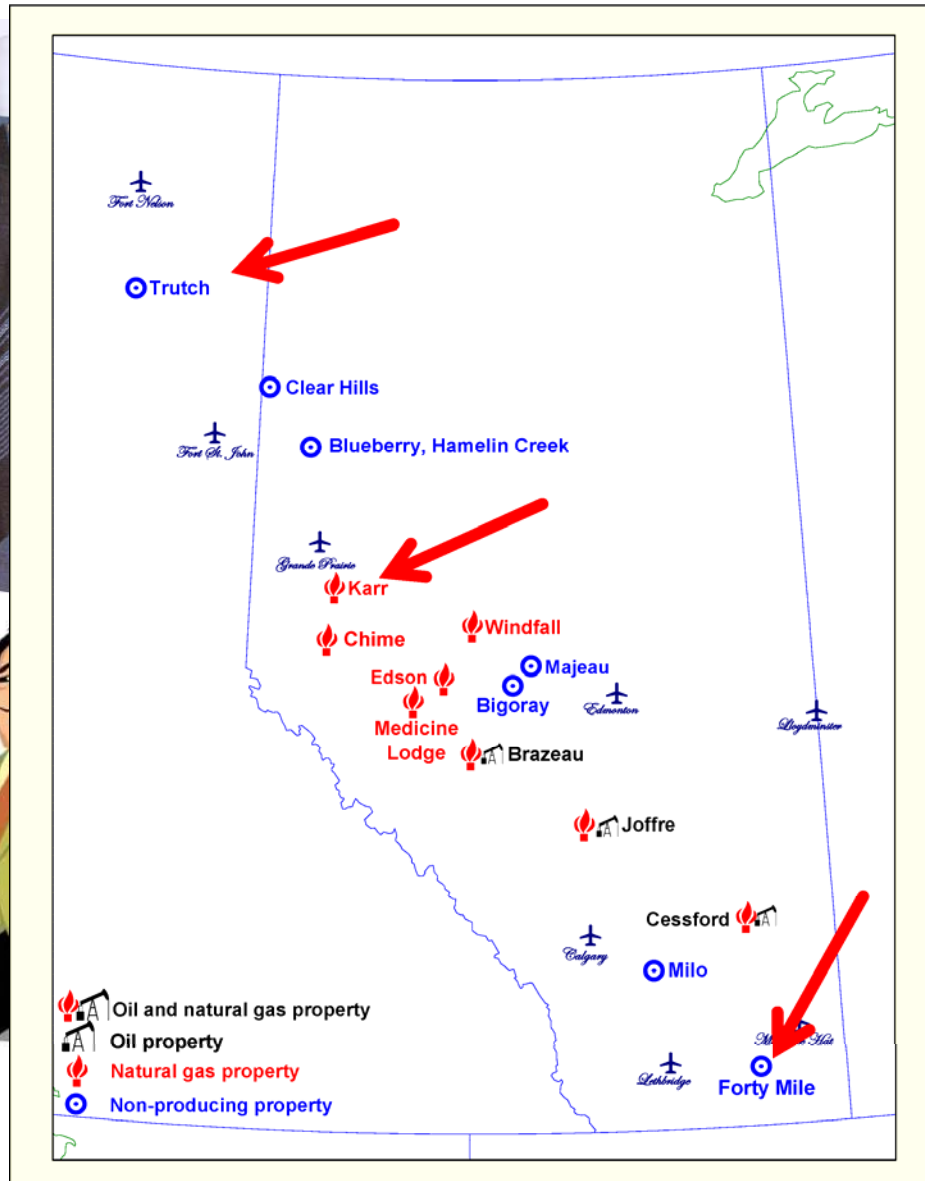
Buying a Shirt



Buying a Shirt



How is this Different?



Trying to Sell a Customer Something He Doesn't Want to Buy: M&A Analogy

ISSUE

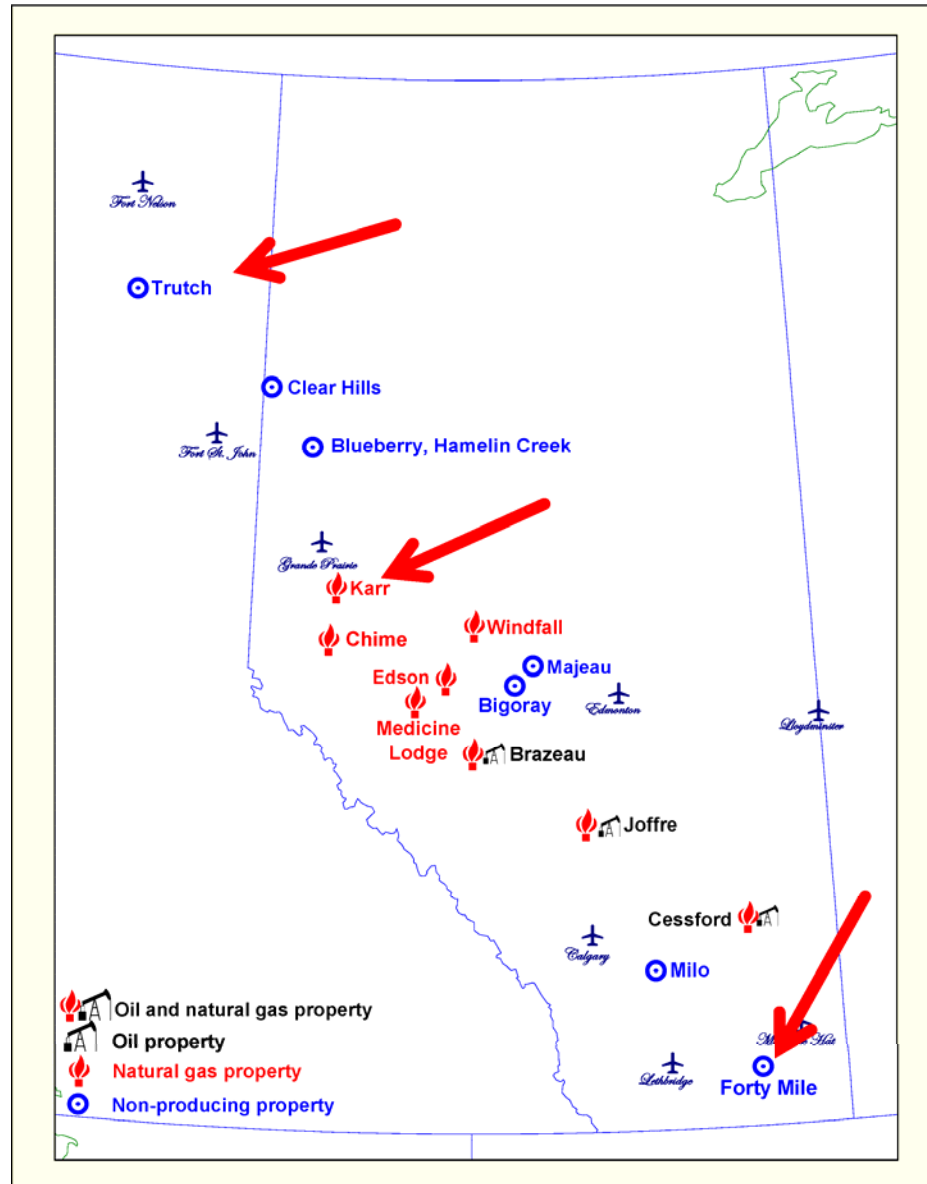
Many vendors want to sell many diverse assets as part of one package.

INSIGHT

The sum of the parts is almost always greater than the whole.

A party looking for assets in one part of the basin will possibly put a premium on these assets; however, the same party, forced to also include assets outside of its core area, will place a discounted value on the unwanted assets.

Trying to Sell a Customer Something He Doesn't Want to Buy: M&A Analogy



Trying to Sell a Customer Something He Doesn't Want to Buy: M&A Analogy

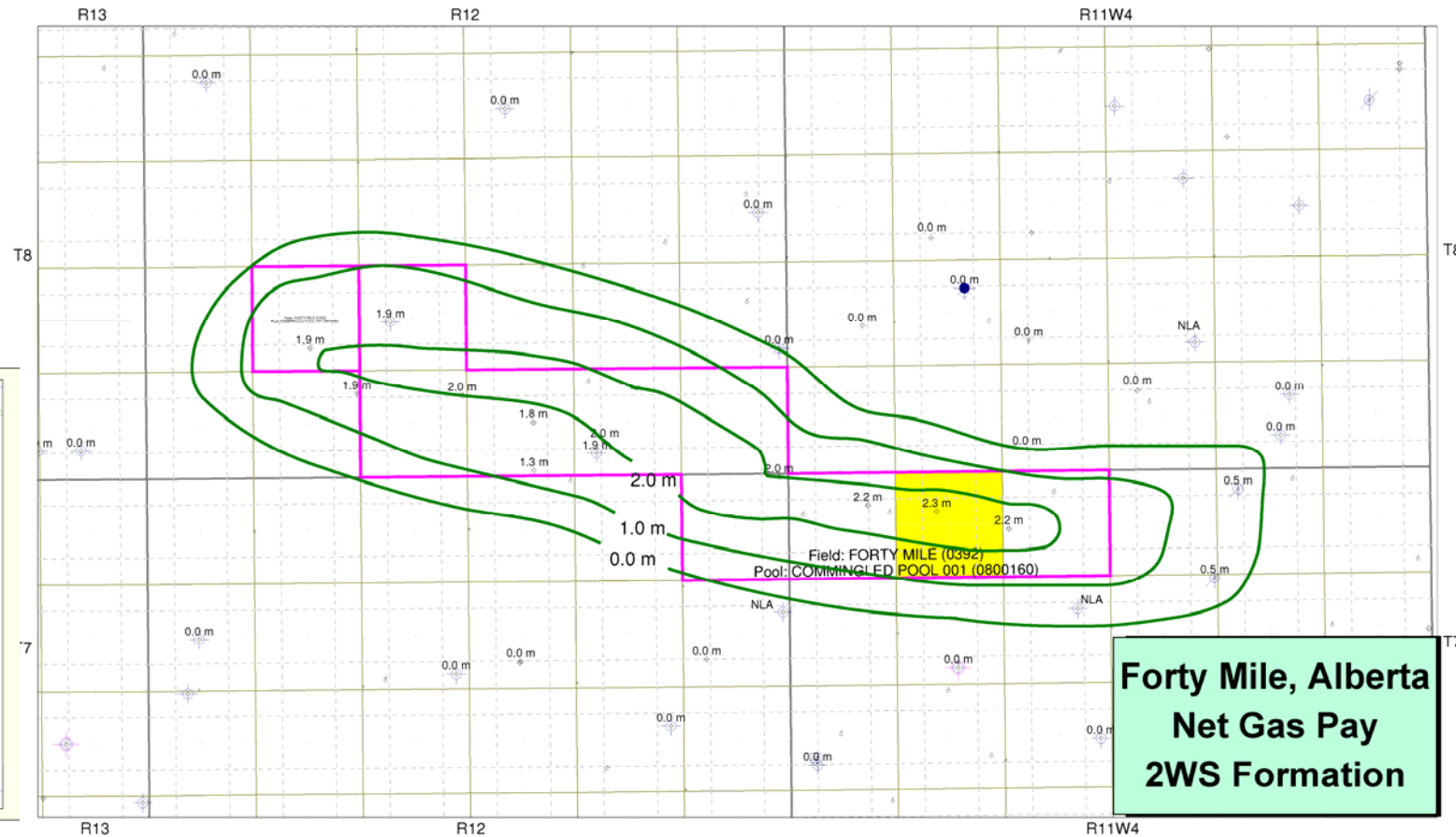
INSIGHT

The subject asset package includes assets from southern Alberta to NE British Columbia.

In NE BC, the assets include horizontal drilling potential on a resource play. The southern Alberta assets include one section of land with 2WS infill drilling potential.

It is unlikely that one party would want both assets.

Trying to Sell a Customer Something He Doesn't Want to Buy: M&A Analogy



Trying to Sell a Customer Something He Doesn't Want to Buy: M&A Analogy

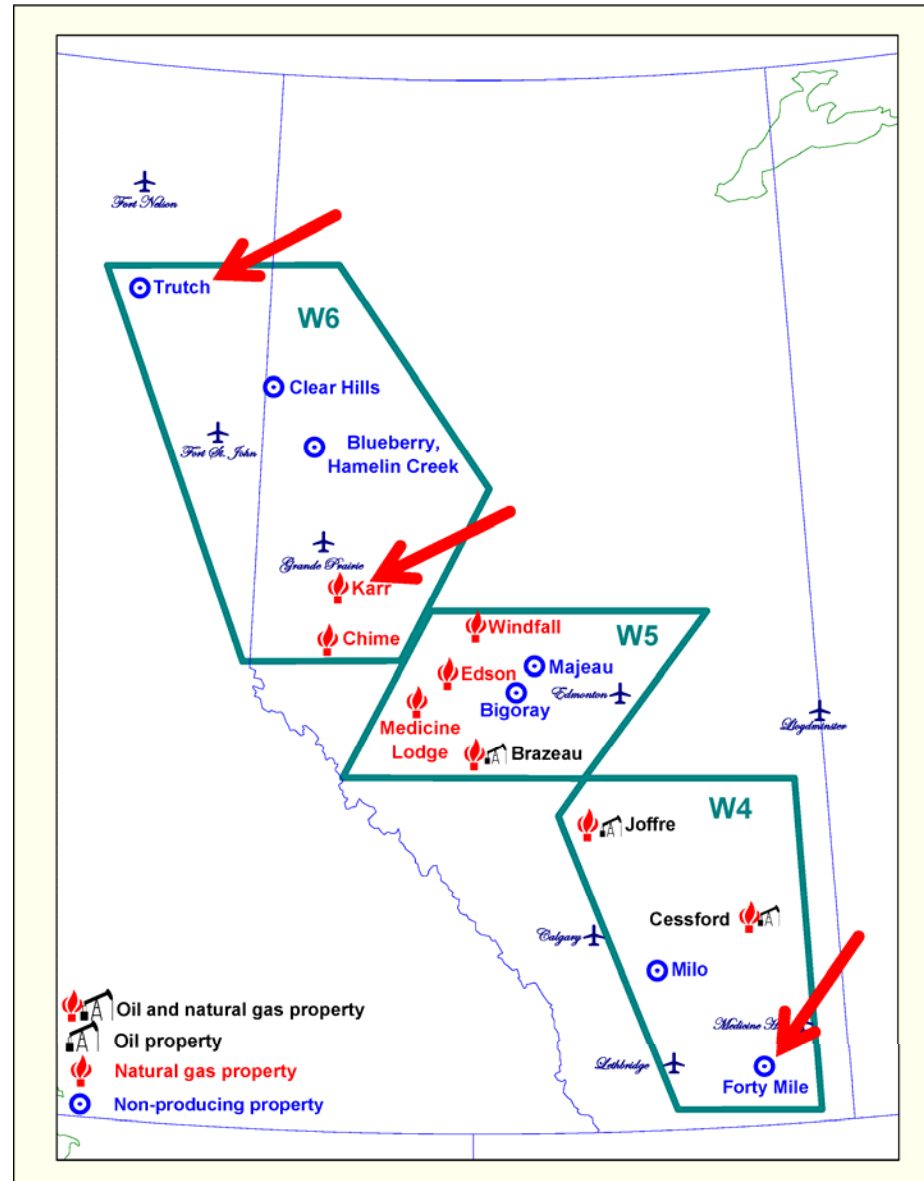
INSIGHT

The asset package has been broken up into several area packages with a more geographical focus, however; there is still a diversity to the assets in spite of the commonality of areas.

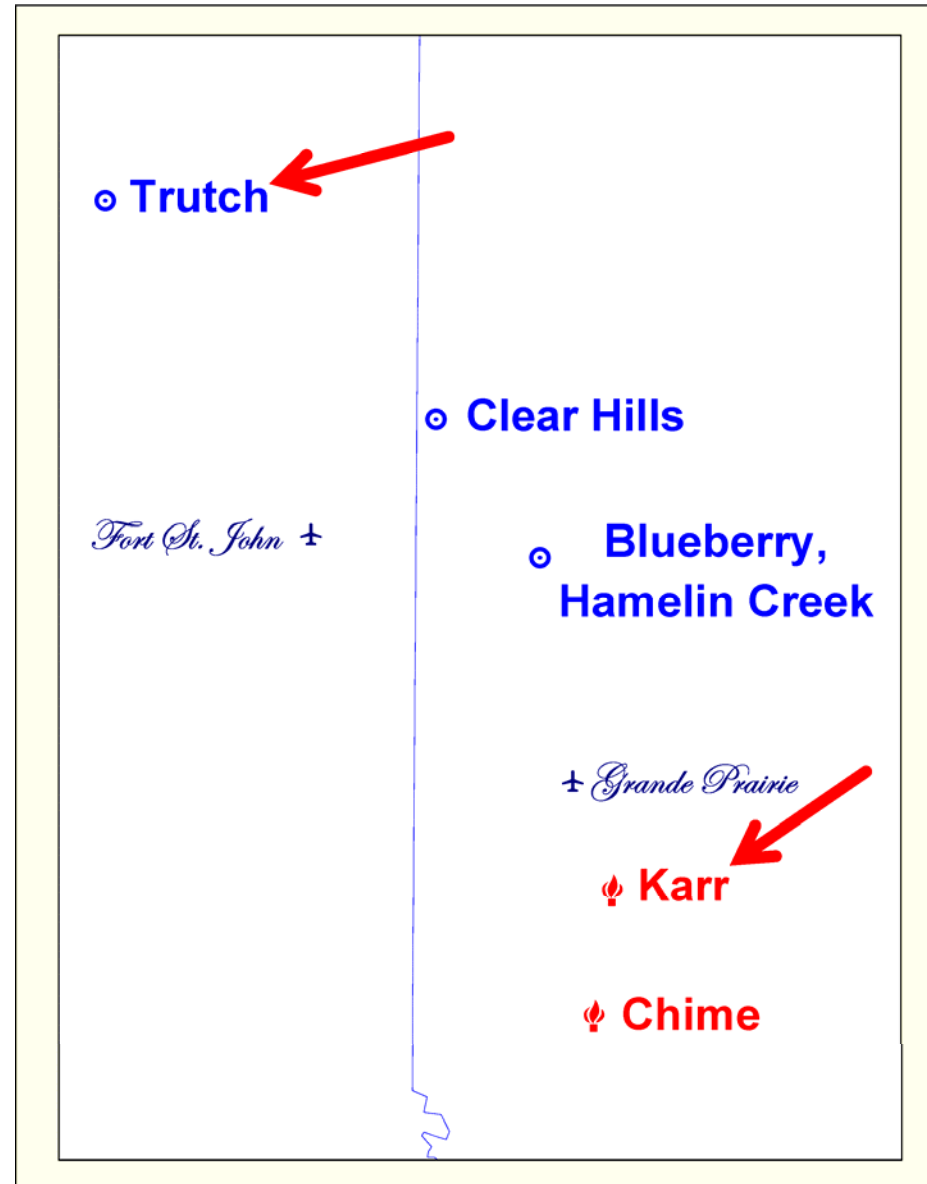
The following example shows how the assets differ, even by property, likely attracting different potential purchasers for different reasons, highlighting the idea that *“the sum of the parts is often greater than the whole .”*

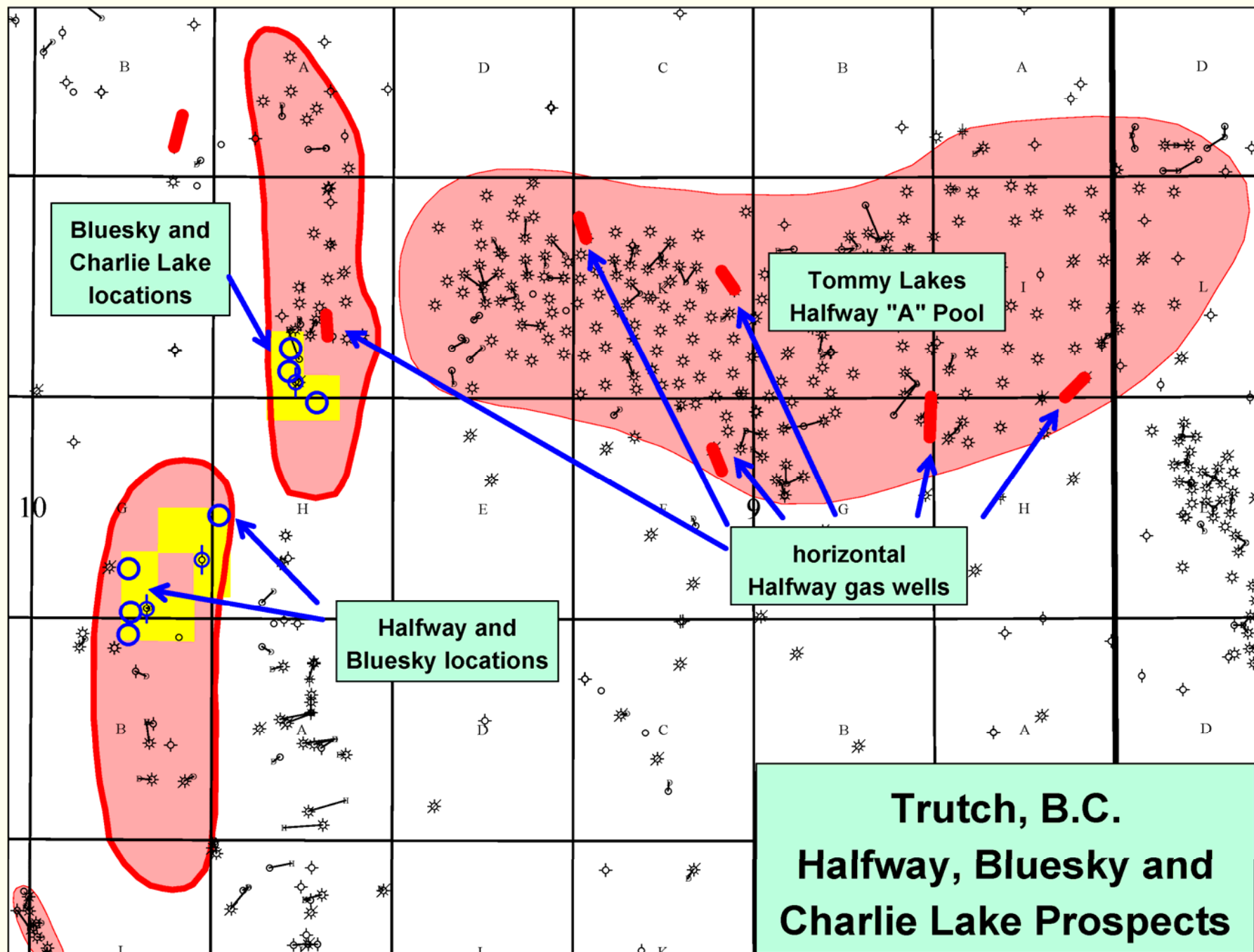
Note the diversity in the Karr package alone, making it a candidate to be sold to two purchasers.

Trying to Sell a Customer Something He Doesn't Want to Buy: M&A Analogy



Trying to Sell a Customer Something He Doesn't Want to Buy: M&A Analogy





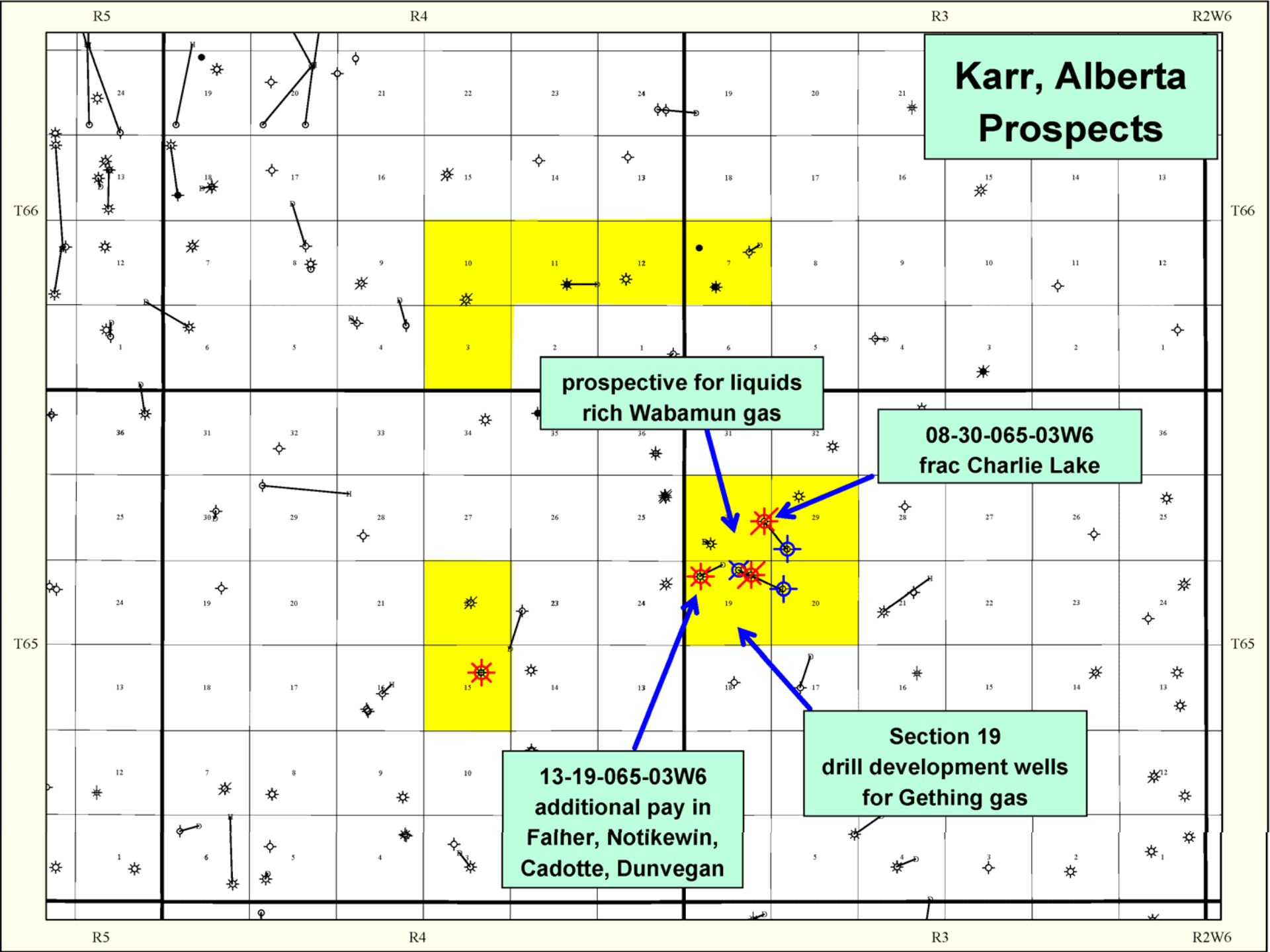
Karr, Alberta Prospects

prospective for liquids
rich Wabamun gas

08-30-065-03W6
frac Charlie Lake

13-19-065-03W6
additional pay in
Falher, Notikewin,
Cadotte, Dunvegan

Section 19
drill development wells
for Gething gas



R8

R7

R6W6

Karr, Alberta Cardium & Montney Prospects

WAPITI
CARDIUM
POOL

potential to drill a
horizontal Montney well

recent Seaview
horizontal Cardium wells

potential to drill a
horizontal Cardium well

recent NuVista
horizontal Montney well

T67

T66

T65

R8

R7

R6W6

Trying to Sell a Customer Something He Doesn't Want to Buy: M&A Analogy

ISSUES

A vendor and/or an agent trying to sell the customer something that ***they want to sell him*** rather than something that ***he wants to buy***.

Trying to sell the customer more than what ***he wants to buy*** because ***you want to sell*** these items.

INSIGHT

It is the customer's money, damn it! Let him spend it on something that ***he wants to buy*** or he will go somewhere else to buy it. There is lots of product available in the market.

There is a great chance to realize higher proceeds by "***busting up***" the asset into smaller parts, within reason.

It takes Special Parties to Handle Large Packages



Photos courtesy of
LIFE Magazine

The Seller's Point of View: Private Companies

CUTPICK
ENERGY INC.

\$40,050,000

8,900,000
Common Shares
at \$4.50

September 2010

CAPIO
Exploration Ltd.

Pan
Pacific Oils Ltd.

New Midland Petroleum Ltd.

TOURMALINE
OIL CORP.

\$18,700,000

850,000
Flow-Through
Common Shares
at \$22.00

August 2010

Northpine
Energy Ltd.



LARICINA
ENERGY LTD.

\$49,980,000

1,666,000
Common Shares
at \$30.00

August 2010

EVOLVE
EXPLORATION LTD.



ONYX
2006 INC.

MILESTONEZ
EXPLORATION

CORAL HILL ENERGY LTD.

\$75,000,000

30,000,000
Common Shares
at \$2.50

February 2010

Rondo
PETROLEUM INC.

GEAR ENERGY

\$83,976,866

22,393,831
Subscription Receipts
at \$3.75

July 2010

HURON
ENERGY

\$11,888,083

2,119,410 Common
Shares at \$3.25
1,250,000 Flow-Through
Common Shares
at \$4.00

October 2008

caltex
energy inc.



STORM Gas Resource Corp.

\$17,940,000

2,760,000
Common Shares
at \$6.50

October 2009

Energy Venture Inc.



SEVEN GENERATIONS
ENERGY LTD.

Response
Energy



CROSSBOW ENERGY
PARTNERS I LTD.

Hunt
OIL COMPANY
CANADA



CAMTON
EXPLORATION INC.

Nordegg
Resources Inc.

\$3,510,000

1,080,000
Common Shares
at \$3.25

June 2010

Canbriam

VALVER
RESOURCES INC.

avalon
Exploration Ltd.

EXSHAW
OIL CORP.

\$13,002,000

3,940,000
Flow-Through
Common Shares
at \$3.30

December 2008

ZNX
ENERGY LTD.



Bucking Horse
Energy Inc.

SAYER
ENERGY ADVISORS

Financing tombstones courtesy of PI Financial

Insight into Private Company Transactions

ISSUE

Valuation.

INSIGHT

Most private companies do not know how to properly value themselves for a financing.

Many want to get full value for their shares and issue equity at a high price.

Publicly traded peers receive significantly lower valuations.

This comes back to haunt them when they enter into a sales transaction.

Public companies cannot purchase on that valuation metric.

Other privatecos will not pay full value.



Insight into Private Company Transactions

ISSUE

Valuation.

INSIGHT

Most private companies do not know how to properly value themselves for a sales transaction.

EXAMPLE

In Q1 2004 a privateco did a financing, issuing shares at \$0.40/share.

Later in Q1 the company was sold for **1.5X P+P @ 10%** but the price was only \$0.34/share, 15% below the most recent issue price!

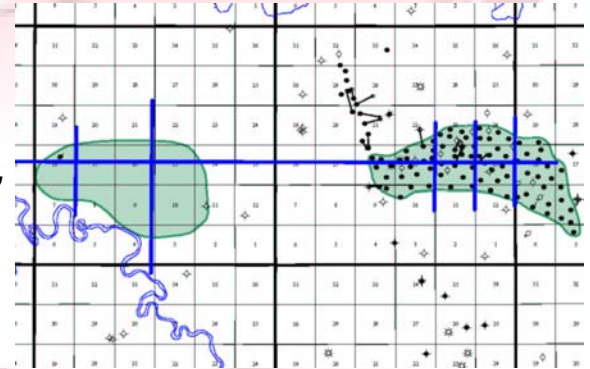
Management had grossly overestimated the value of the company when issuing equity.



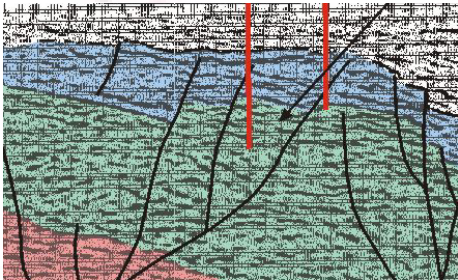
LAND *"Our undeveloped land is worth at least as much as the industry average, if not more."*



RESERVES *"Our evaluators were way too conservative, so we have internally assigned reserves to this land based upon the offsetting pool."*



RESERVES & LAND *"What do you mean we can't add undeveloped land value to these lands which we had internally assigned probable reserves to?"*



SEISMIC *"We have spent millions on seismic and we expect to get paid for it."*

STAFF & FURNITURE *"You will need all of our staff. We have nice desks and a fully furnished office."*



TAX POOLS *"You should add value to our pre-tax NAV to account for our tax pools."*

The Seller's Point of View: Public Companies

ISSUE

Valuation.

INSIGHT

Many public companies, in selling non-core assets, expect to get a valuation consistent with their market metrics.

No public company is trading for a metric based upon the value of its non-core assets.

Many public companies read “the headlines” of big M&A deals and mistakenly believe that their non-core assets are worth as much as the gems that company's have issued news releases on.

Opposite Points of View: Ongoing Operations

ISSUE

Operations that are ongoing during a sales process or at the time of sale.

INSIGHT

Well drilling at time of sale.

If the well hits big, the vendor will want to be paid more for it. The purchaser will say he assumed it would hit and that he already factored that into his price.

If the well misses, the purchaser will possibly try to get a price reduction, claiming that he factored success into his price.





Buyer's & Seller's Point of View: LLR, ARO

ISSUE

Many vendors want to include substantial liabilities along with the producing assets.

INSIGHT

Purchasers are getting more selective as government regulations are getting tougher and as clean-up costs are increasing.

Many asset packages include more liabilities than assets, creating LLR issues for many small purchasers.

The cold hard reality is that companies may be stuck with cleaning up their own back yard – the days of offloading these to unsuspecting buyers are long gone.



Buyer's & Seller's Point of View: Handling Tight Holes, Seismic

ISSUE

Use and misuse of confidential information.

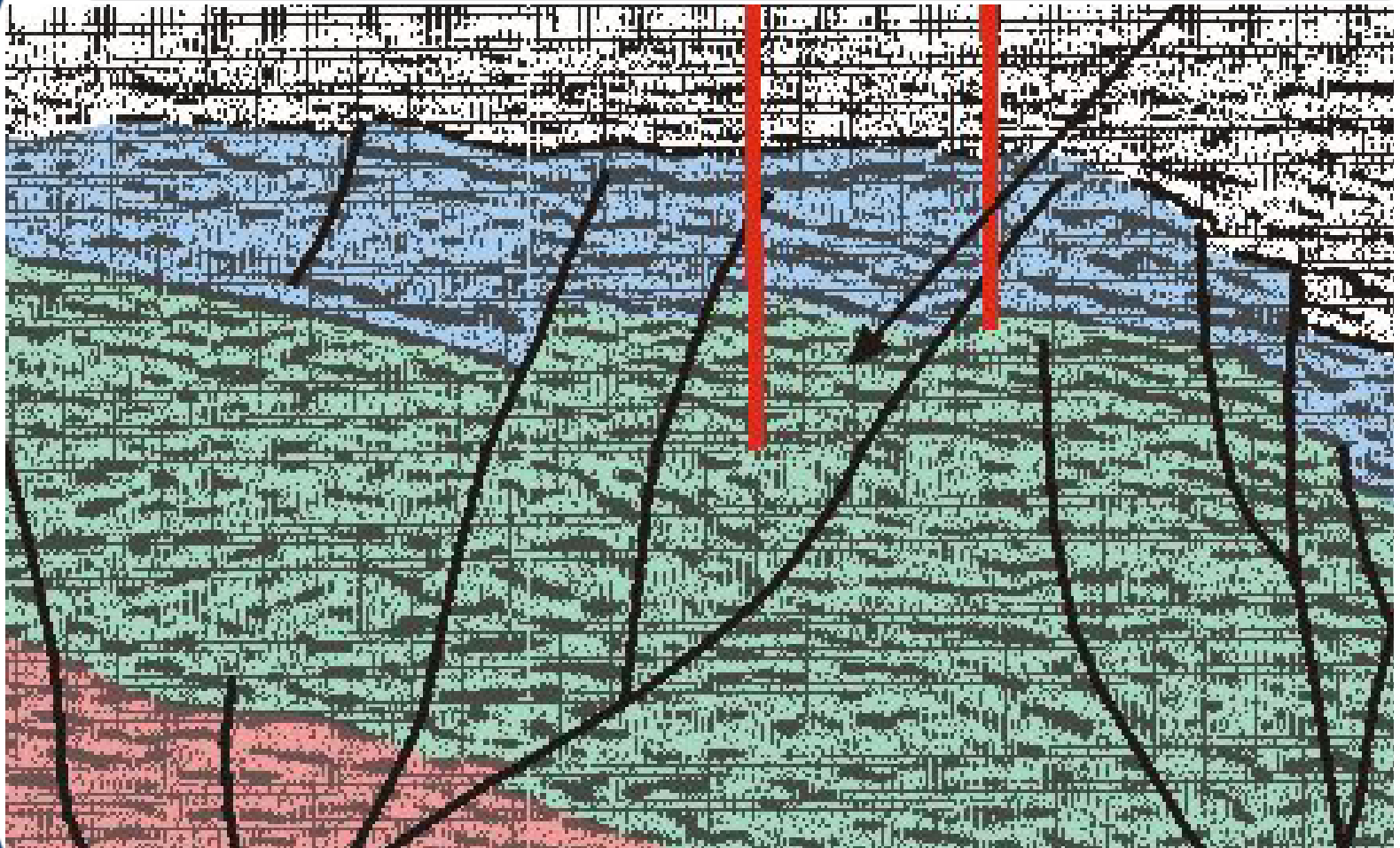
INSIGHT

Vendor must protect contractual obligations to suppliers and partners.

- cannot show tight hole information without approval of partner
- purchaser may be active in the area and therefore loathe to execute an Area of Exclusion Agreement

New “understanding” regarding handling of trade seismic data **and** interpretations created from same.

Buyer's & Seller's Point of View: Handling Tight Holes, Seismic



Buyer's & Seller's Point of View: Handling Seismic

ISSUE

APEGGA is working on a *Guideline for Ethical Use of Geophysical Data* – First draft was prepared in January 2010.

INSIGHT

These guidelines clearly spell out criteria for handling of seismic data and “*geophysical data derived products*” – i.e. maps.

Buyer's & Seller's Point of View: Handling Seismic



Guideline for Ethical Use of Geophysical Data

DRAFT
January 2010

The Association of Professional Engineers,
Geologists and Geophysicists of Alberta



Buyer's & Seller's Point of View: Handling Seismic

4.3 Activities Most Licenses Prohibit

No entity can be given a copy of the licensed data or geophysical data derived products unless permission is granted by the licensor. Exceptions are sometimes granted for affiliated companies provided that such affiliate undertakes to be bound by the terms of the license. Transfer of licensed data as part of an asset sale is prohibited without the licensors approval. Providing a copy of the licensed data to a joint venture partner of the licensee is prohibited until a new license is granted to that partner. Keeping a copy of licensed data after an approved transfer of the data to a subsidiary or related company is prohibited unless permission is granted by the licensor.

Most licenses prohibit the loss of direct control in a data room or review and would prohibit copies of data or geophysical derived products from leaving the data room.

5.6 Property Disposition

Licensed data is typically used to support an asset sale unless the license agreements forbid it. If the asset sale is completed, the purchaser is not entitled to the data and is not allowed "viewing rights". Partnered data can generally be included unless disallowed by another agreement, such as a Joint Operating Agreement, and as long as the seller does not retain a copy of the data.

Buyer's & Seller's Point of View: ROFRs

ISSUE

Use and misuse of ROFR valuations.

INSIGHT

Vendor must honour its contractual obligations to partners.

- contract is between vendor and its partners, NOT the purchaser and the vendor's partners
- vendor must make sure to stated ROFR values are reasonable, or it risks being sued under its JOA

A world map with a grid overlay, showing global interest in Canadian oil and natural gas properties. Red stars indicate countries where Sayer has done business, and blue stars indicate countries active in the Canadian oil patch. The map shows a high concentration of stars in North America, Europe, and Asia, with a few stars in Africa, Australia, and South America. The text is overlaid on the bottom left of the map.

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

A world map with a grid overlay, showing global interest in Canadian oil and natural gas properties. Red stars indicate countries where Sayer has done business, and blue stars indicate countries active in the Canadian oil patch. The map shows a high concentration of stars in North America, Europe, and Asia, with a few stars in Africa, Australia, and South America. The text is overlaid on the bottom left of the map.

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

ISSUE

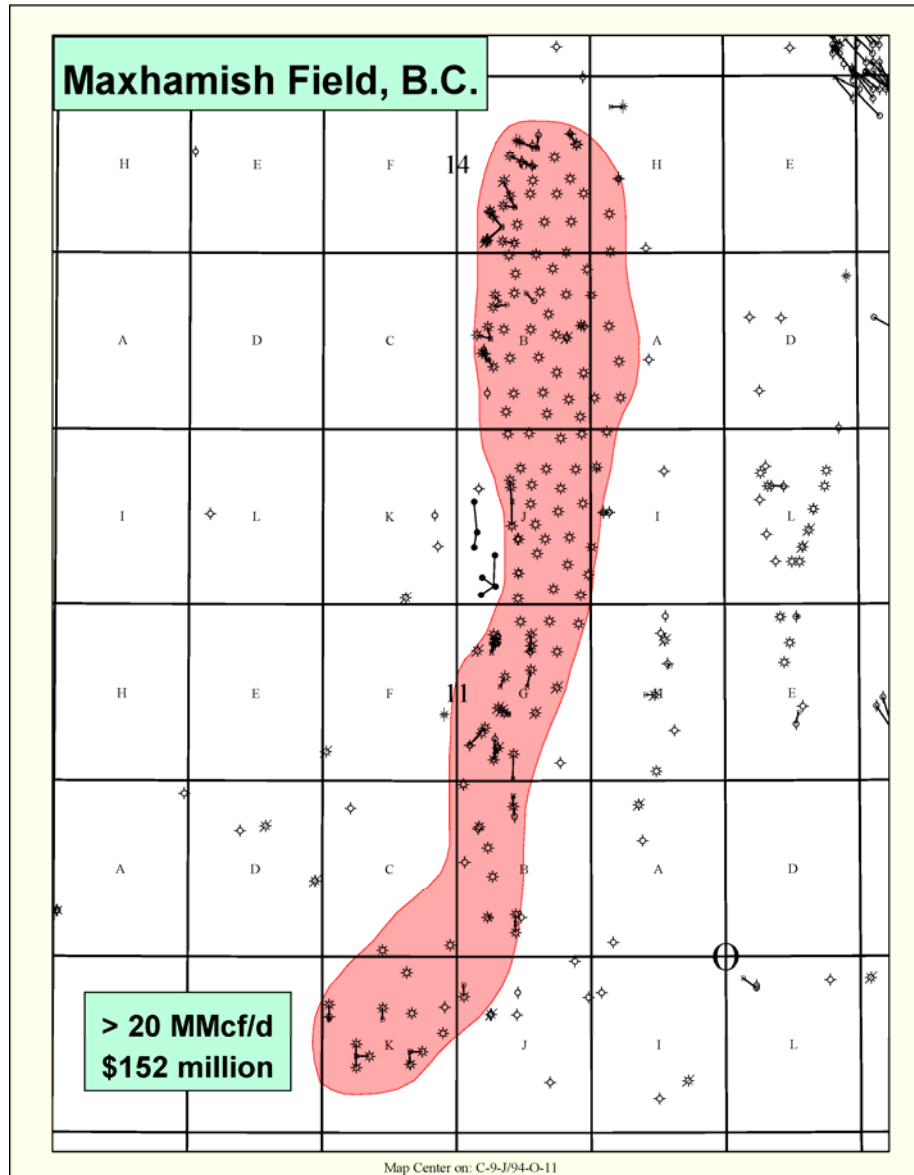
Recent purchase of Maxhamish, B.C. Field

- 20 MMcf/d or 1,200 boe/d of natural gas
purchased for \$152 million by Korean Company

INSIGHT

Why did they buy the property?

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





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



Recent “*Rush*” of Foreign Buyers

ISSUE

Recent rush of buyers from China, Korea, etc.

INSIGHT

These buyers have varying agendas.

Do not assume ***anything*** about what they want to buy.

Unlikely Buyers?

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 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!



Buyers are Represented by all Sorts of People

ISSUE

Limiting access to an offering to a select group of “pre-screened” parties.

INSIGHT

You don't know who is out there that might really want to buy what you have to sell. The “store” should be open for all to come in and browse.

Why do you think retail stores put their goods in the window for all to see? Why do you think they welcome all parties to enter the store?

Never Judge a Book ...

INSIGHT

Agents often get calls from parties appearing to be promoters, looking for small properties to buy for the latest promote.

In spite of the appearance, once in a while these “promoters” actually represent parties which have the cash and the motivation to conclude a deal.

From the Buyer's Point of View

ISSUE

Limiting access to an offering to a select group of “pre-screened” parties, excluding potential purchasers from the process.

INSIGHT

Anybody that wants to shop in the store is a potential customer and should be treated as one.

Never make assumptions about a party's ability to conclude or finance a transaction. The credit card can be checked once they get to the till to check out.

Agent's Point of View: Value of an Agent

ISSUE

Tempers can get hot during negotiations.

INSIGHT

A good agent can take the emotion out of the sales process.

- no attachment to the assets
- no false expectations
- look at things from both sides of the deal
- take punches from both sides
- stick to business and get the deal done

2010 M&A Statistics

Time Period	Total M&A Value (\$ billions)	Total boe/d Sold	Median Price All Deals (\$/boe/d)	Median Price Oil Deals (\$/boe/d)	Median Price Gas Deals (\$/boe/d)	Number of Deals total large/small
Q3*	\$9.6	86,225	\$64,475	\$68,514	\$52,886	116 (39/77)
Q2	\$15.6	152,518	\$57,143	\$68,905	\$47,159	228 (51/177)
Q1	\$3.8	25,743	\$63,458	\$96,132	\$57,624	83 (38/45)
Total YTD	\$29.0	264,486	\$58,381	\$68,986	\$50,425	427 (128/299)
Total 2009	\$48.2	447,043	\$50,752	\$69,875	\$38,091	479 (140/339)
* Q3 values are preliminary as Q3 2010 statistics are still being finalized						

There is currently product with total production of +/- 100,000 boe/d publically known to be available for purchase in Western Canada.



Summary

All You Need to Remember From This Presentation Today Is ...

Always try to look at things from the other party's point of view.

You can lead a horse to water but you can't make him drink.

One man's junk is another man's treasure.

International buyers, represented by all sorts of individuals, are seriously looking at Canadian oil and natural gas assets of all sizes.

Everyone should be considered a qualified buyer until proven otherwise.

Let the agent take the punches.

... and ...



and Finally ...

“When you can’t see things from the other party’s side of the desk, before you criticize them you should walk a mile in their shoes” ...

“That way, by the time they get mad at you, you will be one mile away and they will be barefoot and unable to catch you!”

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The View from the Other Side of the Desk

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