

2008 A&D Outlook

Sayer Energy Advisors' Perspective

Presented to the
Petroleum Acquisition & Divestment Association



January 15, 2008

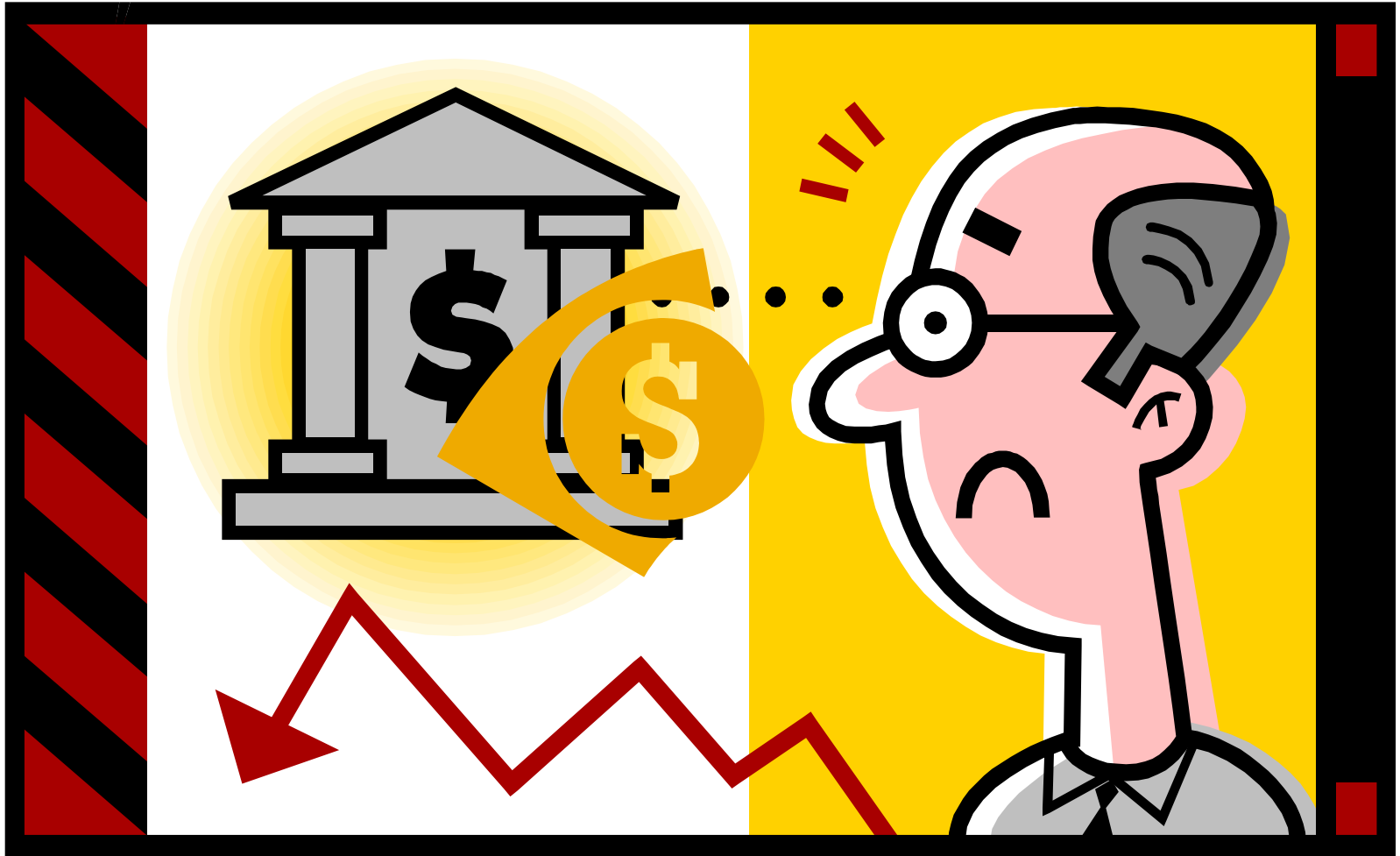
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A&D OUTLOOK FOR 2008



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A&D OUTLOOK FOR 2008

- 2007 was a “*Buyer’s Market*”.
- “*Buyer’s Market*” will continue well into 2008.
- Focus on corporate transactions.
- Continued private company sales.
- Continued acquisitions by RIT’s and consolidation of trusts.
- Income tax will remain an issue that will impact corporate M&A activity.
- Only a few significant property packages; many minor property packages.
- Vendors will need to have realistic price and value expectations or processes will go “*no sale*”.
- Asset acquisition prices will continue to fall.

BUYER'S MARKET TO CONTINUE

- 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.

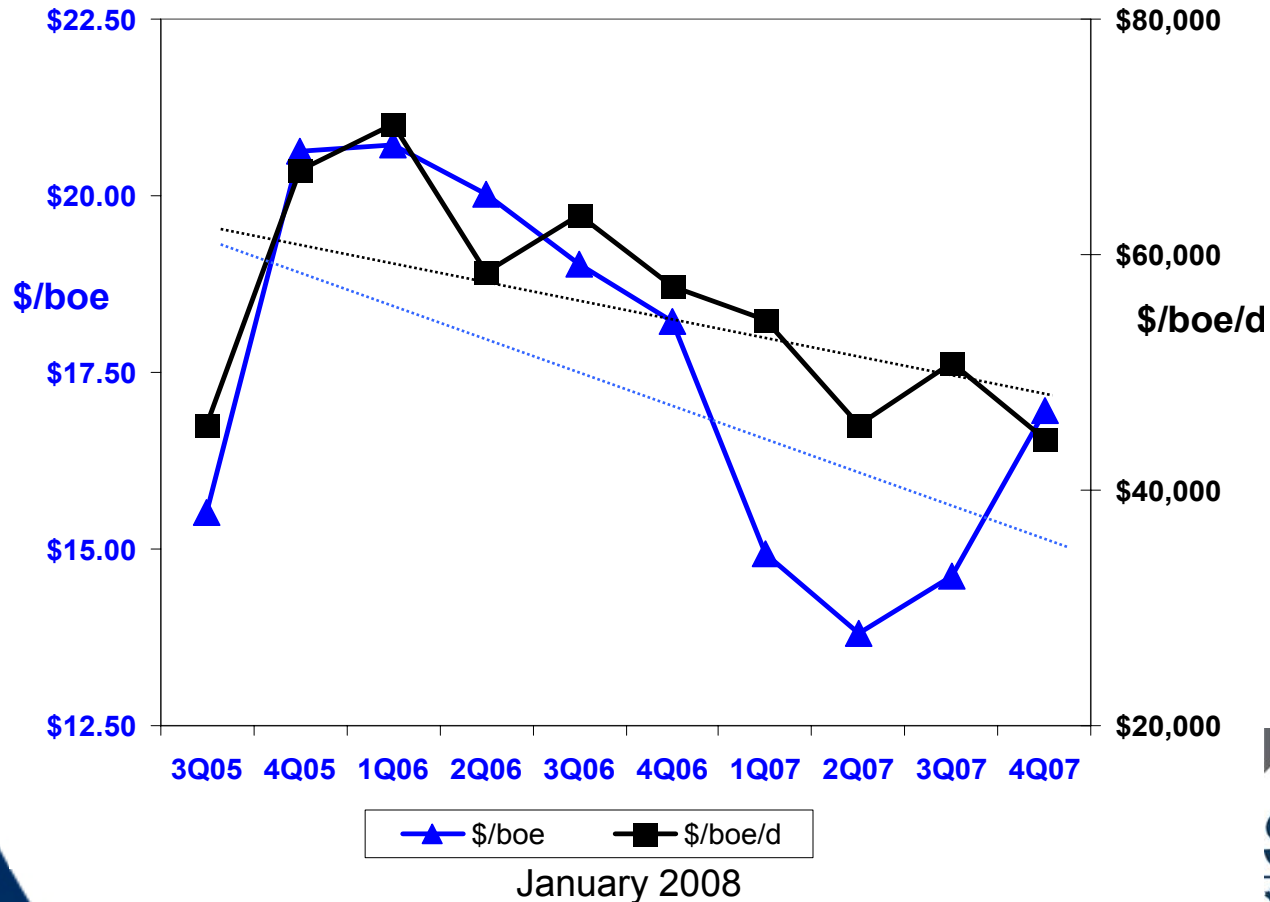
METRICS OF M&A TRANSACTIONS



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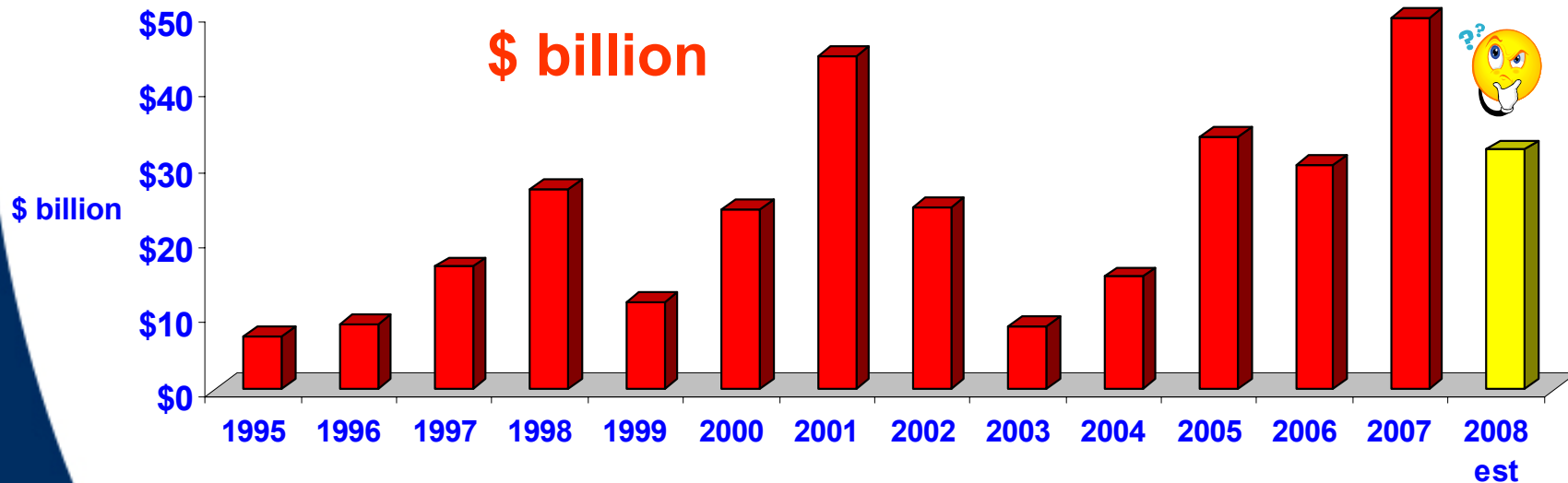
RECENT ACQUISITION PRICES

- Production and reserves acquisition prices have been following a downward trend since early in 2006.



VALUE OF M&A ACTIVITY

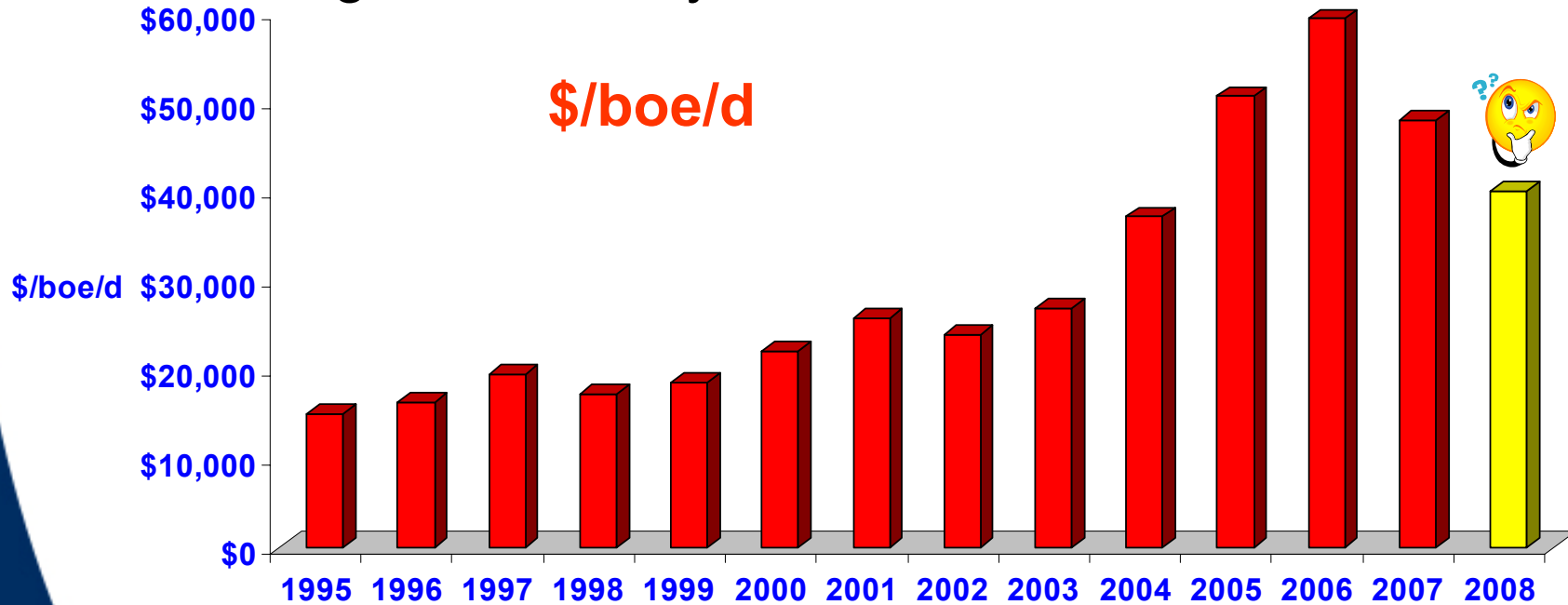
- In 2007 the total value of M&A transactions reached the highest level ever. 2008 should see a lower value of activity in spite of an increased number and value of small mergers due to a lower number of high-priced oil sands deals.



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PRODUCTION ACQUISITION PRICES

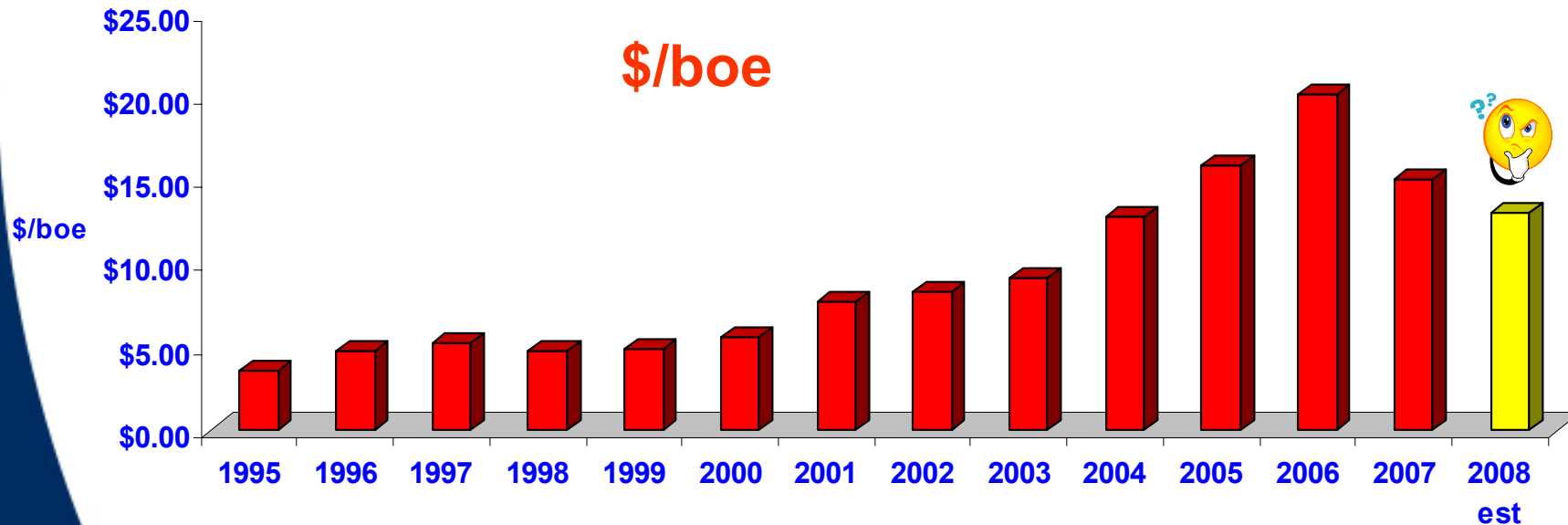
- The median daily production acquisition price (\$/boe/d) declined in 2007, following the trend of natural gas prices. Prices rebounded late in the year for oil-weighted transactions while prices for natural gas deals stayed low.



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RESERVES ACQUISITION PRICES

- The median reserves acquisition price (\$/boe) declined in 2007, however Q4 prices were above the yearly median due to the number of Bakken oil deals in SE Sask. Lower prices should continue into 2008, particularly for asset sales.



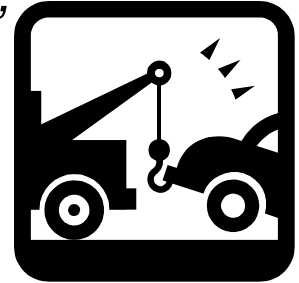
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2007 M&A LOOKBACK

- Almost half (45%) of the M&A transactions valued at over \$5 million in 2007 were corporate. These deals accounted for 87% of the total M&A value in 2007.
- Many corporate transactions resulted from stressed balance sheets (*Magnus, Caribou, Bear Ridge, C1, Cork, Hygait, ...*).
- Many corporate sales or sale processes were preceded by non-core asset sales (*Magnus, Caribou, Bear Ridge, Cork, Mystique, Desmarais, Sound, Expedition, Innova, ...*).
- Many corporate transactions went “no sale” (*Newpact, Adamant, Compass, Vision 2000, Milagro, Silverwing, Desmarais, Saxony, CalGas?, Defiant?, ...*).
- These trends will continue in 2008.

RECENT M&A LOOKBACK

- The industry has seen the recent return of insolvency to the oil patch.
 - **CCAA** (*Point North Energy, Caribou Resources, Mystique Energy, ...*)
 - **Receivership** (*Vanquish Oil & Gas, EnerNorth, Interquest Incorporated, CML Resources, Fair Sky Resources, ...*)



however ...

- Many corporate transactions involved the sale of otherwise healthy companies with significant growth potential.



Grand, Capitol, Watch, Expedition, Innova, Titan, Triwest, Kinwest, Bulldog, Peerless, Arista, ...

2008 CORPORATE M&A FORECAST

- Private company sales.
- Cash purchases of pubcos by privatecos.
- “*Soft sells*” and unannounced mergers of public companies.
- Unsuccessful “*soft sells*” will go into public processes.
- Many attempted sales will fail.
- More CCAA sales.
- High prices for oil-weighted deals.
- Low prices for natural gas deals should increase gradually through the year.
- More share-for-share transactions.
- M&A prices have likely bottomed out.



CORPORATE M&A IN 2008

- Oil-weighted transactions will be in favour.
- Opportunistic gas-weighted Alberta transactions will occur (ex. *NuVista/Rider*).
- Any remaining Bakken players in SE Sask. can “*write their own ticket*”.
- Current market value of undeveloped land is close to zero unless it has Bakken oil potential.
- Share for share transactions will be prominent.
- PV 10% to PV 12% P+P on forecast pricing ***not strip pricing.***

2008 M&A FORECAST



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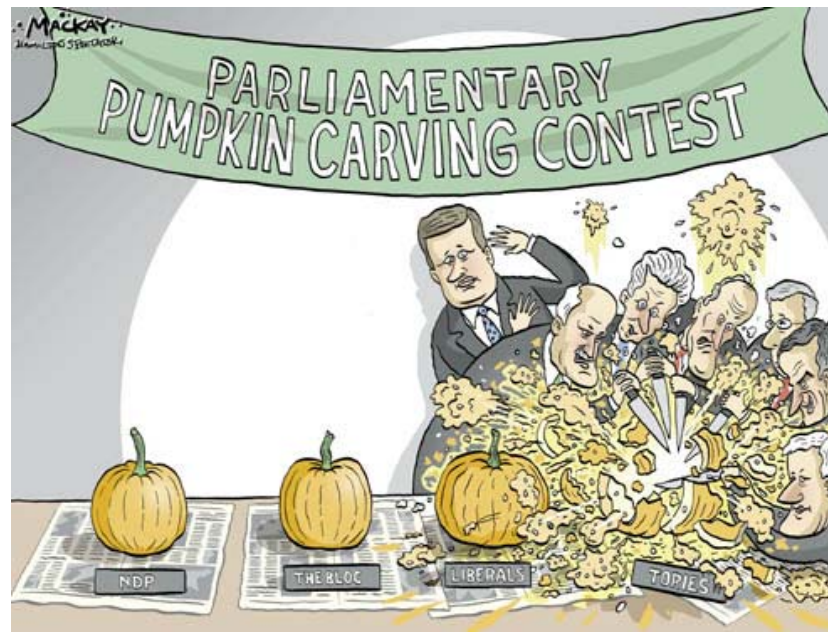


TRENDS IN CORPORATE M&A

- Continued depressed market for share price of many juniors, creating an opportunity for continued mergers amongst this sector, ***predominantly on a share for share basis.***
 - *Galleon/ExAlta, Twin Butte/E4, Tristar/Kinwest, Tristar/Bulldog, Petrobank/Peerless, NuVista/Rider ...*
- International companies are showing interest in Canada (again).
 - ***Marathon/Western Oil Sands***
 - ***TAQA/Northrock/Pioneer/PrimeWest/?***

TRENDS IN CORPORATE M&A

- Trusts **will** continue to be aggressive purchasers, in spite of **and** as a result of the pending changes to the income tax treatment of trusts.
 - *Provident/Capitol, NAL/Seneca, Crescent Point/Rising Tide, Crescent Point/Innova, Bonavista/Imperial assets, Canetic/Titan, Provident/Triwest, Crescent Point/Pilot, Zargon/Rival, Bonavista/Kereco assets, ..., ...*

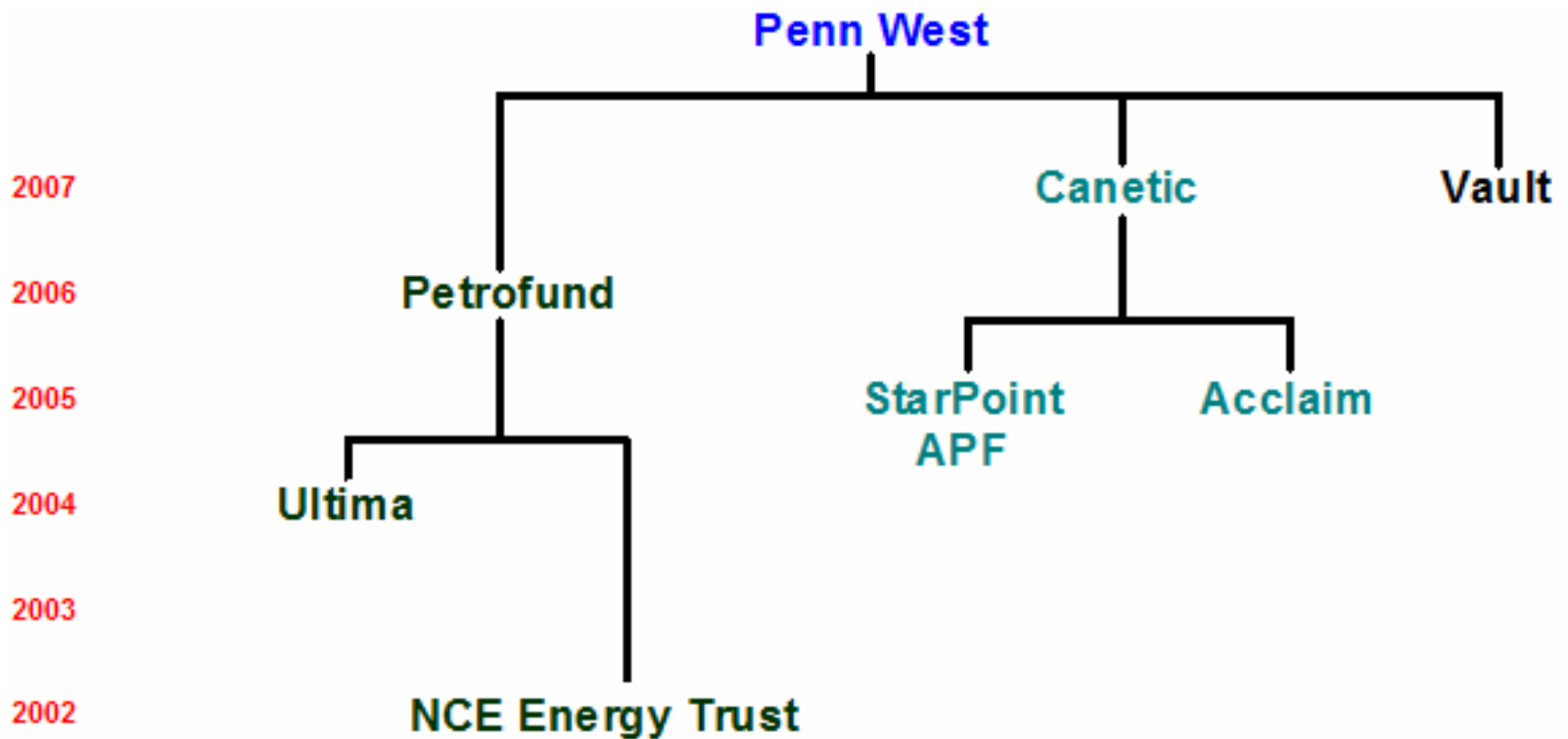


TRENDS IN CORPORATE M&A

- Trust consolidation, which started long before the Finance Minister's announcement regarding changes to the income tax treatment of trusts, will continue.
 - *PrimeWest/Shiningbank, Enerplus/Focus, Advantage/Sound, Penn West/almost everybody else*
- Trust consolidation will be accelerated to allow certain trusts more room for growth under the “*salary cap*”.
 - Trusts with room for growth will merge with those which are capped due to previous or pending acquisitions.

TRUST CONSOLIDATION

- Will Penn West be the winner of “ *RIT 2010*”?



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CORPORATE M&A IN 2008



Canada Revenue Agency
Agence du revenu
du Canada

- Prime acquisition candidates will have substantial tax pools.
 - needed by Trusts that plan to convert to a traditional E&P structure by 2011
 - needed by conventional E&P's for continued, sustained growth as primary market-interest in this time of limited interest in funding juniors is funding through flow-through shares
- ***This conflicts with current financings favouring flow through shares.***

SELLING SHARES vs ASSETS

- The current M&A market favours selling assets, while the financial markets encourage companies to sell flow through shares to finance growth.

Flow Through Share Sale	Item	Asset Sale
50%-75% of NAV	Proceeds	80%-90% of PV10%
100% CEE	Tax Effect	80% COGPE, 20% UCC
No effect	Assets	Improved property focus
Dilution to shareholders	Dilution	Zero dilution
No change	Bank Line	Decrease
No change	Production	Decrease
Drilling only	Use of Funds	Acquisition or drilling
7%-10% or more	Total Fees	Less than 3%

PROPERTY SALES OUTLOOK

- Higher quality properties will hit the market as some vendors struggle to survive.
- Prices for property transactions will fall as less expensive corporate transactions become available.
- Purchasers will be more selective, lower quality assets will either sell for lower prices or will not sell.
- Asset sales should become a more prominent tool to finance juniors.
- Vendors need to have a realistic expectation of the market value of assets for a sales process to succeed.
- Many property packages will go “*no sale*” due to abundance of product and a lack of capital for acquisitions.

PROPERTY SALES OUTLOOK



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EXPECT SOME PROCESSES TO FAIL



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UNSOPHISTICATED BUYERS

- The basin is moving towards smaller independent companies, as seen in the USA.
- With oil near \$100/bbl everyone wants to be an oilman.
- This is bringing out the “flakey” buyers.
- If the objective is to *sell* and unsophisticated buyers want to *buy*, vendors with patience will succeed in dealing with these purchasers.



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A&D OUTLOOK FOR 2008

- Rush to sell companies that are distressed or underperforming before the 2007 reporting season.
- Increased number of share transactions.
- Continued interest in companies involved in the Bakken oil play in SE Saskatchewan.
- Companies looking for an exit may not find one.
- Asset prices will fall with increased supply.
- Many sales processes will fail.
- Cranky sellers and unsophisticated buyers will need special handling for deals to close.
- Equity will begin to return to the sector in Q2.
- Strong companies will take advantage of the large number of opportunities available in 2008.

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