

2009 A&D Outlook

Sayer Energy Advisors' Perspective

Presented to the
2008 Calgary Dealmakers
Symposium and A&D Forum

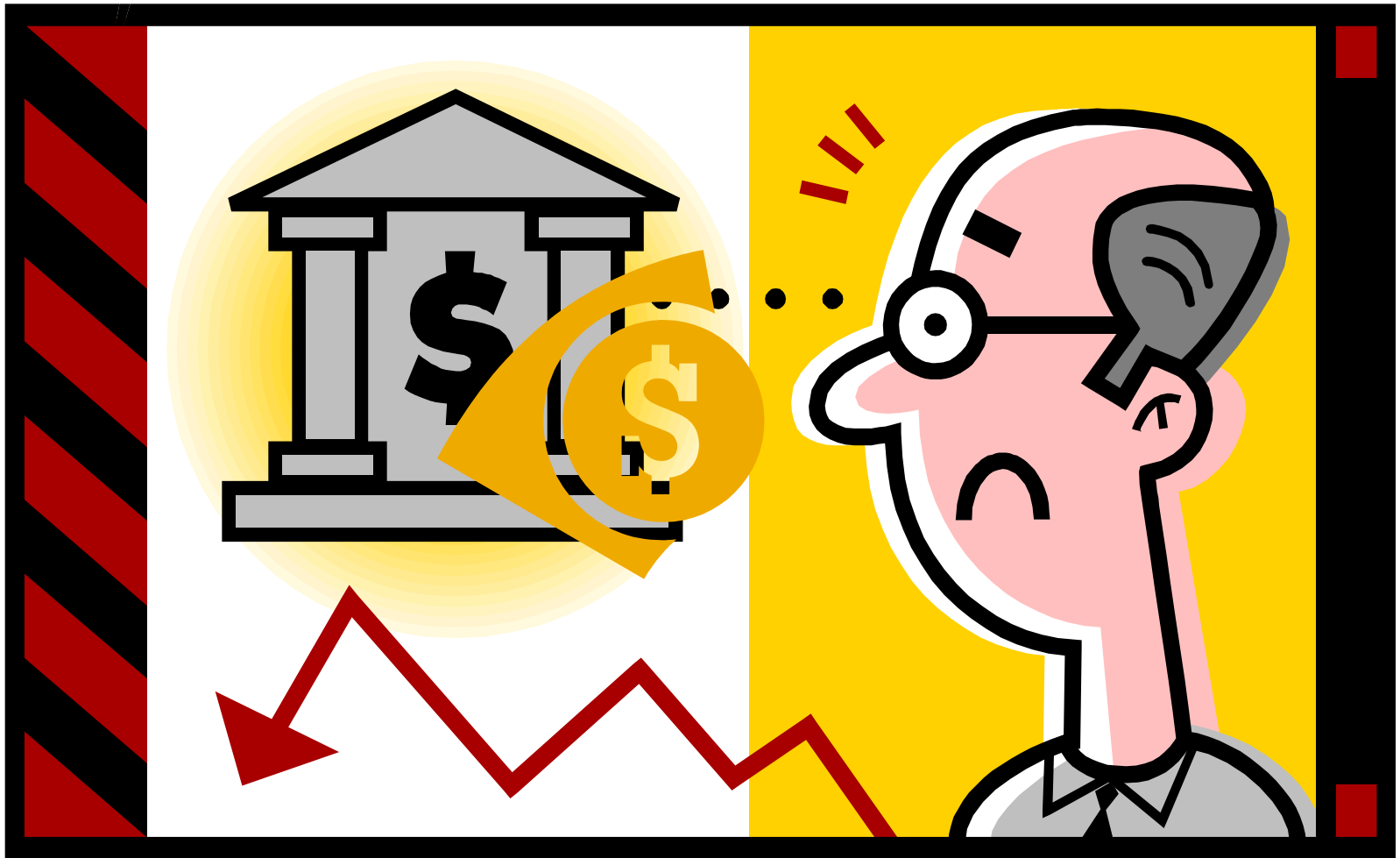


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Calgary Dealmakers Presentation
November 2008

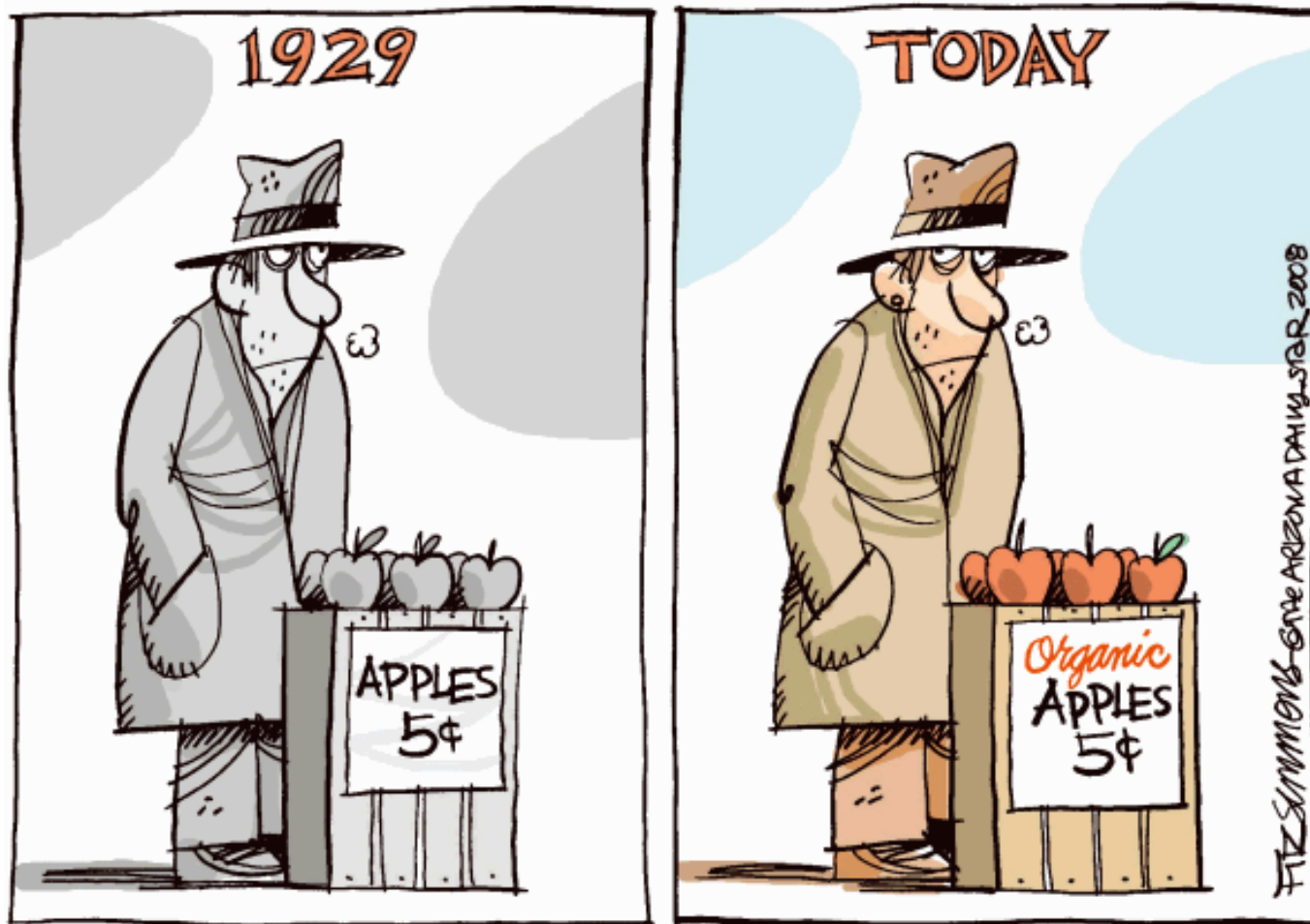


A&D OUTLOOK FOR 2009



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Before we look forward ...



A&D OUTLOOK FOR 2009

- 2008 was a “*Buyers’ Market*”
- “*Buyers’ Market*” will continue
- In 2009 there will be lots of Sellers, but Buyers might not have cash ... CASH IS KING!
- Focus on corporate transactions
- Continued private company sales
- 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 fall dramatically

2009 – “Cash is King”



“October. This is one of the peculiarly dangerous months to speculate in stocks in. The others are July, January, September, April, November, May, March, June, December, August and February.” Mark Twain

Buyers' Market to Continue

- Weak balance sheets
 - Commodity prices remain variable
 - Crude oil prices may rebound
 - Natural gas prices will remain flat
 - Equity markets absent to selective
 - Flow through available to some, but at what price?
 - “*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



M&A Price “Roller Coaster”

- 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 oil
- 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
- rise and fall with changes in the cost of capital

M&A Price “Roller Coaster”

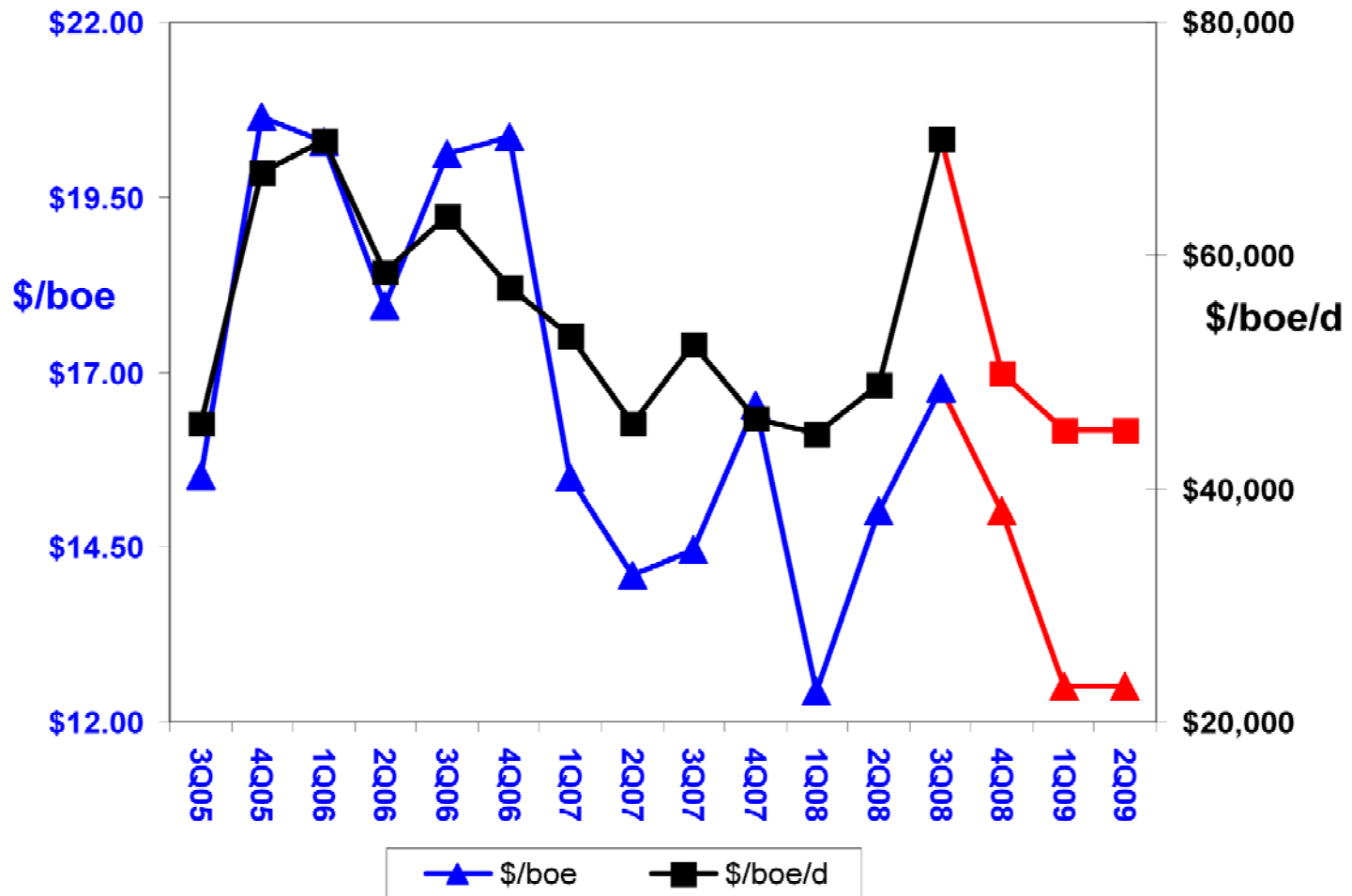


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Recent Acquisition Prices

- Production and reserves acquisition prices followed a downward trend from early in 2006 until early in 2008.
- Prices rose in 2008 in response to a dramatic rise in the price of oil
- Expect prices to fall dramatically in 2009
 - The price of both oil and natural gas have fallen and the access to capital has all but disappeared
 - Cost of capital will increase dramatically in response to the global financial situation

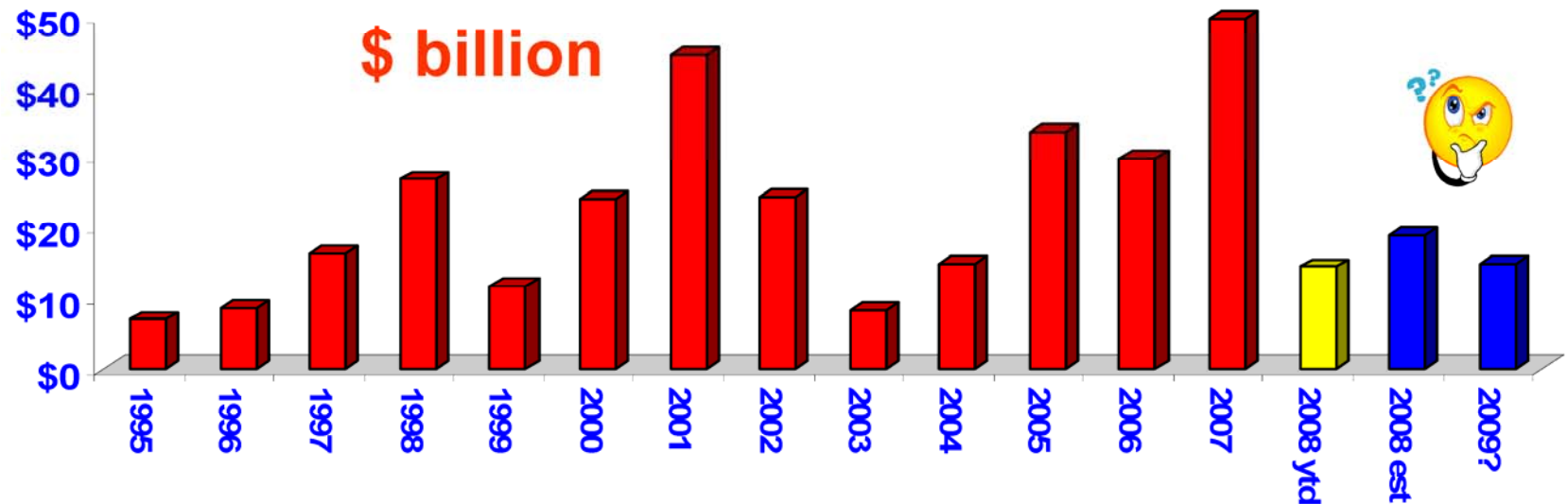
Recent Acquisition Prices



Value of M&A Activity

- In 2007 the total value of M&A transactions reached the highest level ever. So far in 2008 the total value is substantially lower.
- 2009 should see an even lower value of activity than 2008 in spite of an increased number and value of small mergers, due to lower priced oil deals.

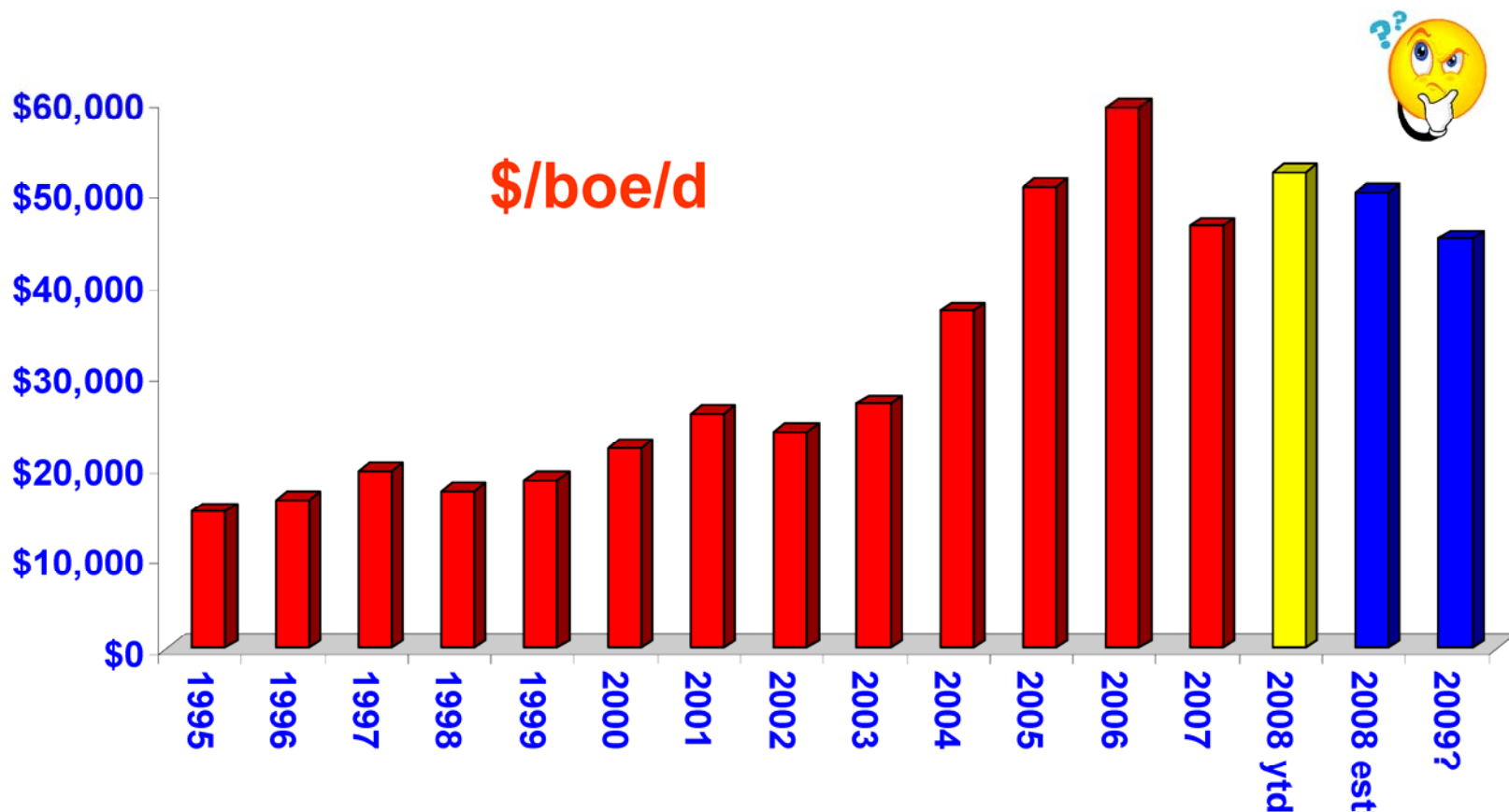
Value of M&A Activity



Production Acquisition Prices

- The median daily production acquisition price (\$/boe/d) declined in 2007, following the trend of natural gas prices. Prices rebounded early in 2008 for oil-weighted transactions while prices for natural gas deals stayed low.
- Prices in 2009 will continue to track commodity prices, with oil deals generally fetching higher prices than natural gas deals.

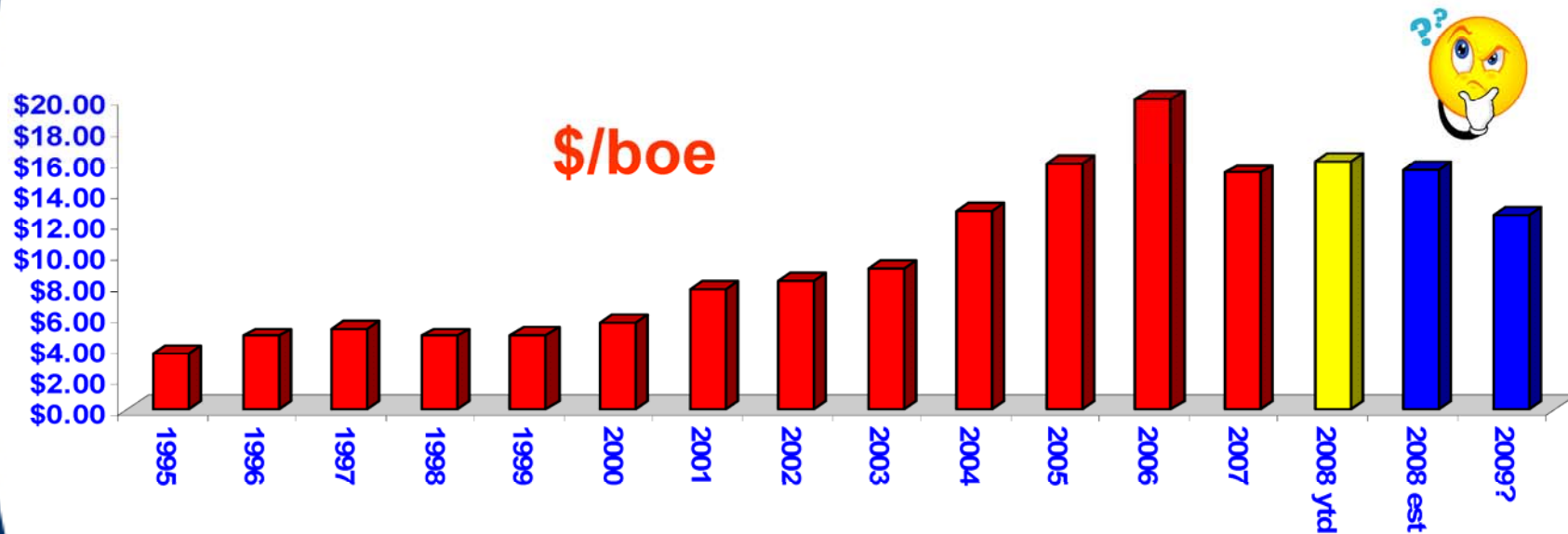
Production Acquisition Prices



Reserves Acquisition Prices

- The median reserves acquisition price (\$/boe) declined in 2008, again following the drop in commodity prices since mid-year.
- Lower prices should continue into 2009, particularly for asset sales.

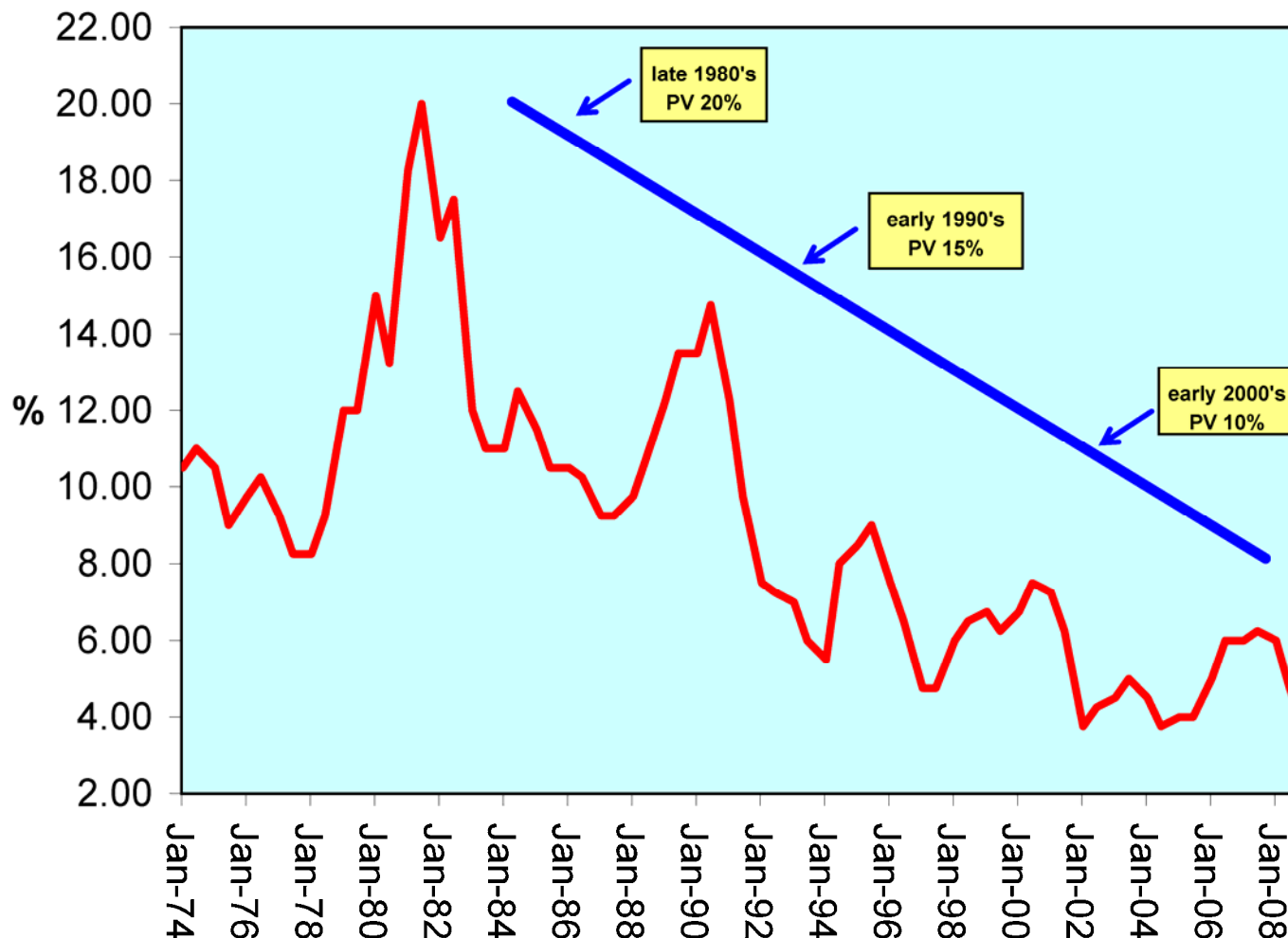
Reserves Acquisition Prices



Discounts to PV

- In recent years the discount rates used in purchasing oil and natural gas assets have fallen to around 8%-10% in response to the falling cost of capital.
- Discount rates in the late 80's were around 20%, falling in steps to 15%, 12%, 10% then recently to as low as 8% as the cost of capital fell.
- A significant increase in the cost of capital is forecast as a result of the global financial situation.
- Discount rates used in M&A transactions will rise with the increased cost of capital, lowering the price of acquisitions.

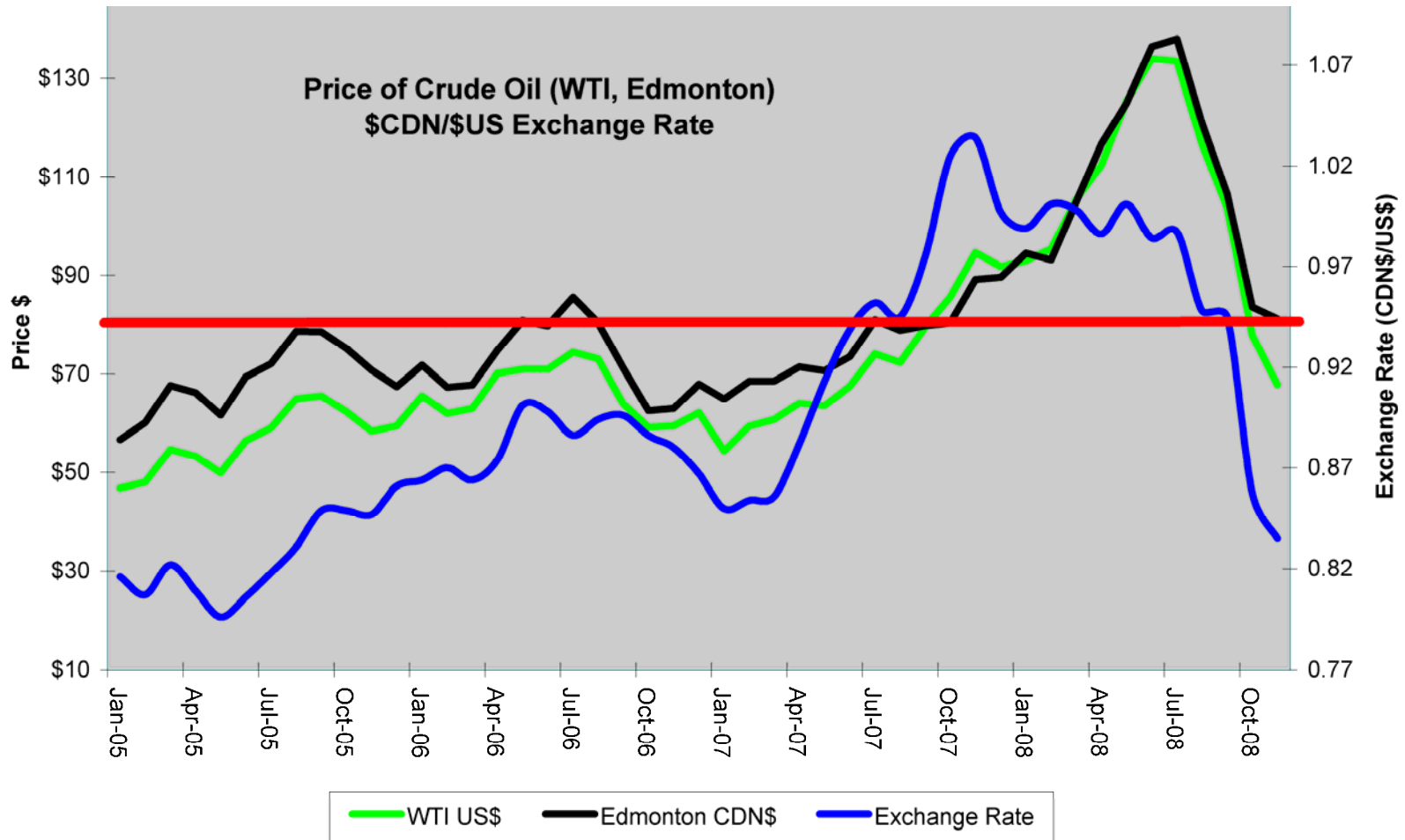
Prime Rate vs Discount Rates



2009 Acquisition Prices

- Oil acquisition prices should fall to levels seen in the third quarter of 2007, as that is where the price of oil is heading on a \$CDN basis. The price has not fallen as rapidly in \$CDN as in \$US due to a drop in the \$CDN/\$US exchange rate.
- Natural gas acquisition prices will stay low, tracking the cost of capital and the price of the commodity.

Oil Price vs \$CDN/\$US



2009 M&A Forecast

- Corporate transactions should dominate the M&A front.
- Production acquisition prices should be in the range of \$35,000-\$40,000/boe/d for natural gas deals and \$40,000 to \$50,000/boe/d for oil transactions.
- Reserves acquisitions prices should be in the range of \$12.50/boe to \$15.00/boe.
- Total value of M&A activity will drop significantly from recent levels.

“New” Alberta Royalty Framework

- Changes to the Alberta Royalty Framework will continue to impact M&A prices in Alberta, in spite of what Premier Stelmach wants to believe.
- M&A prices for high-deliverability oil and natural gas properties will decline.
- Land sale revenues will stay low, negatively impacting land valuations in M&A transactions.
- Netbacks on some low deliverability properties will improve, possibly arresting the decline of M&A prices for these types of properties.

“New” Alberta Royalty Framework

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Trends in M&A Transactions

- Continuing the trend that started in 2007, in 2008 almost half (43%) of the M&A transactions valued at over \$5 million (to the end of September) were corporate. These deals have accounted for 80% of the total M&A value to date in 2008.
- Many corporate acquisitions were targeted for specific plays like the Bakken in Saskatchewan (*Crescent Point/Shelter Bay/Landex*) and the Montney in northeastern B.C. (*Shell/Duvernay, Petrobank/Rocor, Petrobank/Peerless*).
- Private companies are taking advantage of low share prices to acquire junior public companies for cash
 - ***TriAxon/Longbow***
 - ***Golden Oil/Kootenay***
 - ***Cumberland/COSTA's assets***
- Many corporate and property transactions went “no sale”.
- These trends will continue in 2009.

Insolvency

- The industry has seen the recent return of insolvency to the oil patch.
 - **CCAA** (2007: *Point North Energy, Caribou Resources, Mystique Energy*, 2008: *Piper, JED, Northern Sun, ...*)
 - **Receivership** (2007: *Vanquish Oil & Gas, EnerNorth, Interquest Incorporated, CML Resources, Fair Sky Resources*, 2008: *Cheyenne, Peace River Oil, ...*)
- With high oil and natural gas prices built into reserves reports in mid-2008 and a severe lack of liquidity, many companies are facing the prospect of a bleak winter with little to no capital to work with. Some will not survive.



2009 Corporate M&A Forecast

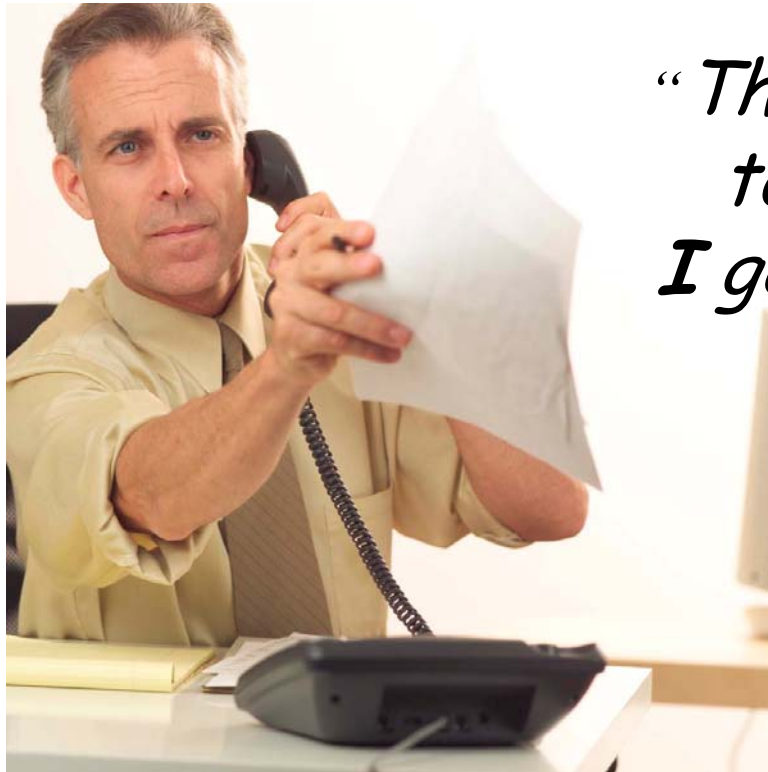
- High percentage (80%+) of deals will be corporate deals
- Private company sales if assets focused (*Landex, Strand, Rocor, New Midland*)
- Cash purchases of pubcos by privatecos (*TriAxon/Longbow, Golden Oil/Kootenay, Cumberland/COSTA's assets*)
- “Soft sells” and unannounced mergers of public companies
- Unsuccessful “soft sells” will go into public processes
- Many attempted sales will fail
- More CCAA or insolvency sales (*Piper, JED, Northern Sun*)
- Higher prices for oil-weighted deals than for natural gas deals
- More share-for-share transactions
- M&A prices have not yet bottomed out

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***
 - *Canadian Superior/Seeker, Baytex/Burmis, Regal/G2, Crew/Gentry, Great Plains/Redstar, Iteration/Cyries, Yoho/Vision 2000, NuVista/Rider, Profound/Defiant, Second Wave/Milagro, Arsenal/GEOCAN, Ember/Cordero,...*
- Private companies are taking advantage of low share prices to acquire junior public companies for cash
 - ***TriAxon/ Longbow***
 - ***Golden Oil/Kootenay***
 - ***TAQA/?***

Corporate M&A in 2009

Historically, egos have blocked many corporate transactions involving public companies.



“The only way I’ll agree to this merger is if I get to run the show.”

Corporate M&A in 2009

Things may be changing now.

“Loser runs it.”



Property Sales vs Equity Issues

- Junior companies have historically been loathe to sell properties as the market demands production growth as a measure of success
- There is currently limited appetite for acquiring equity in juniors
- Selling assets is a tremendous way of raising funds cost effectively while improving the portfolio
- There is a lack of small properties available for sale
- There is still demand for small property packages
- Assets can fetch close to full value in the current property market
- Share sales are at a deep discount to NAV

Property Sales vs Equity Issues



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Property Sales Outlook

- In the past two years the market has seen a high percentage of corporate deals vs property transactions
- There are currently several property and packages totaling from 50,000-70,000 boe/d available
- The majority of this production is in a few large packages like *Penn West* (property), *EnCana* (property).
- There is a lack of small properties available for sale
- There is still demand for small property packages

Property Sales Outlook

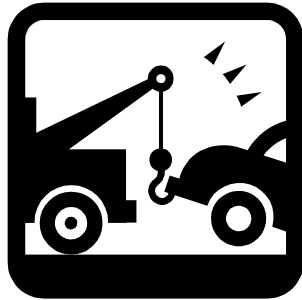
- Higher quality properties will hit the market as some vendors struggle to survive.



Property Sales Outlook

- Prices for property transactions will fall as less expensive corporate transactions become available
- Asset sales should become a more prominent tool to finance juniors
 - Assets can fetch almost full value, share sales are currently at a deep discount to NAV
- There will be more sales out of CCAA etc. as some juniors struggle to survive

There Will be “*Fire Sales*” in 2009



Property Sales Outlook

- Purchasers will be more selective, lower quality assets will either sell for lower prices or will not sell
- Many property packages and corporate offerings will go “*no sale*” due to abundance of product and a lack of capital for acquisitions

Expect Some Processes to Fail



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Value of an Agent

- In tough times it is wise to engage an agent to assist with any corporate or property sale
- The proper agent knows who the buyers are
- The proper agent knows the true M&A value of your company or its assets
- “*For Sale by Owner*” rarely achieves a premium result, even in good times
- In tough times it is critical to get the best professional help that is available

Property Sales Outlook



Value of an Agent



A&D Outlook for 2009

- Rush to sell companies that are distressed or underperforming before the 2008 reporting season
- Increased number of share transactions between public companies
- Increased number of private company acquisitions of public companies for cash
- Companies looking for an exit may not find one
- Asset prices will fall with increased supply, lower commodity prices and reduction in equity financings
- Some companies will become insolvent in 2009
- Many sales processes will fail
- Strong companies will take advantage of the large number of opportunities available in 2009

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