

PRESENTATION TO THE CONFERENCE BOARD OF CANADA

**UTILIZING NI 51-101
DISCLOSURE INFORMATION
IN M&A STRATEGIES**



Presentation Outline

- **Background of Sayer Securities Limited**
- **Summary of Recent M&A Transactions**
- **Impact of Reserve Writedowns**
- **Problems and Limitations of NI 51-101 in M&A Transactions**
- **Taking Advantage of NI 51-101 Disclosure Information**
- **Wrap Up**
- **Questions and Answers**

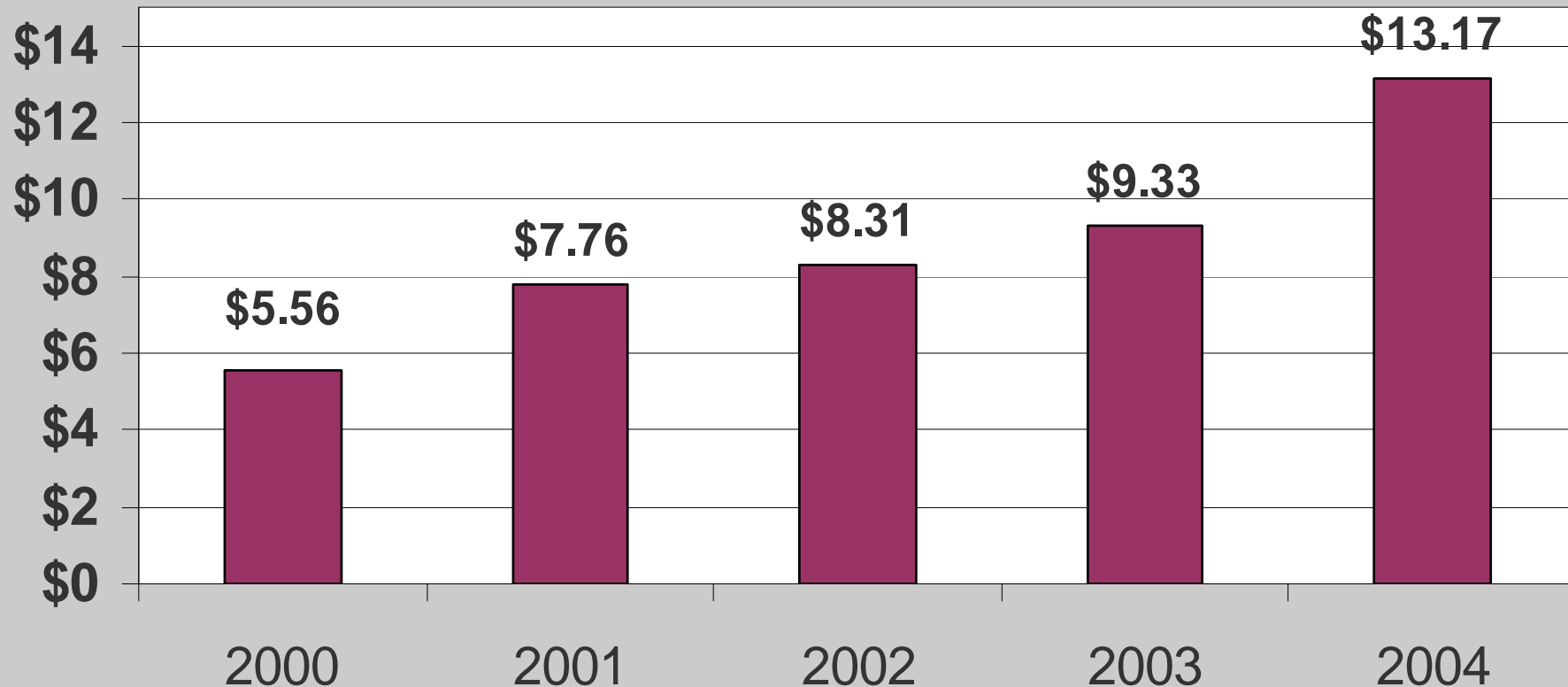
Sayer Securities Limited

- **Alan W. Tambosso, P.Eng. P.Geol., President**
 - 23 years of oil and gas operations and M&A/A&D experience
 - One of very few dually-registered professionals with APEGGA
- **Tom B. Pavic, CFA, Associate**
 - 5 years of corporate finance and advisory history
 - Specialist in M&A transaction analysis
- **Expert team of research associates and analysts**
 - Industry leader in M&A and A&D transaction analysis
 - Recent involvement in transactions totaling over \$10 billion in value

Summary of Recent M&A Transactions

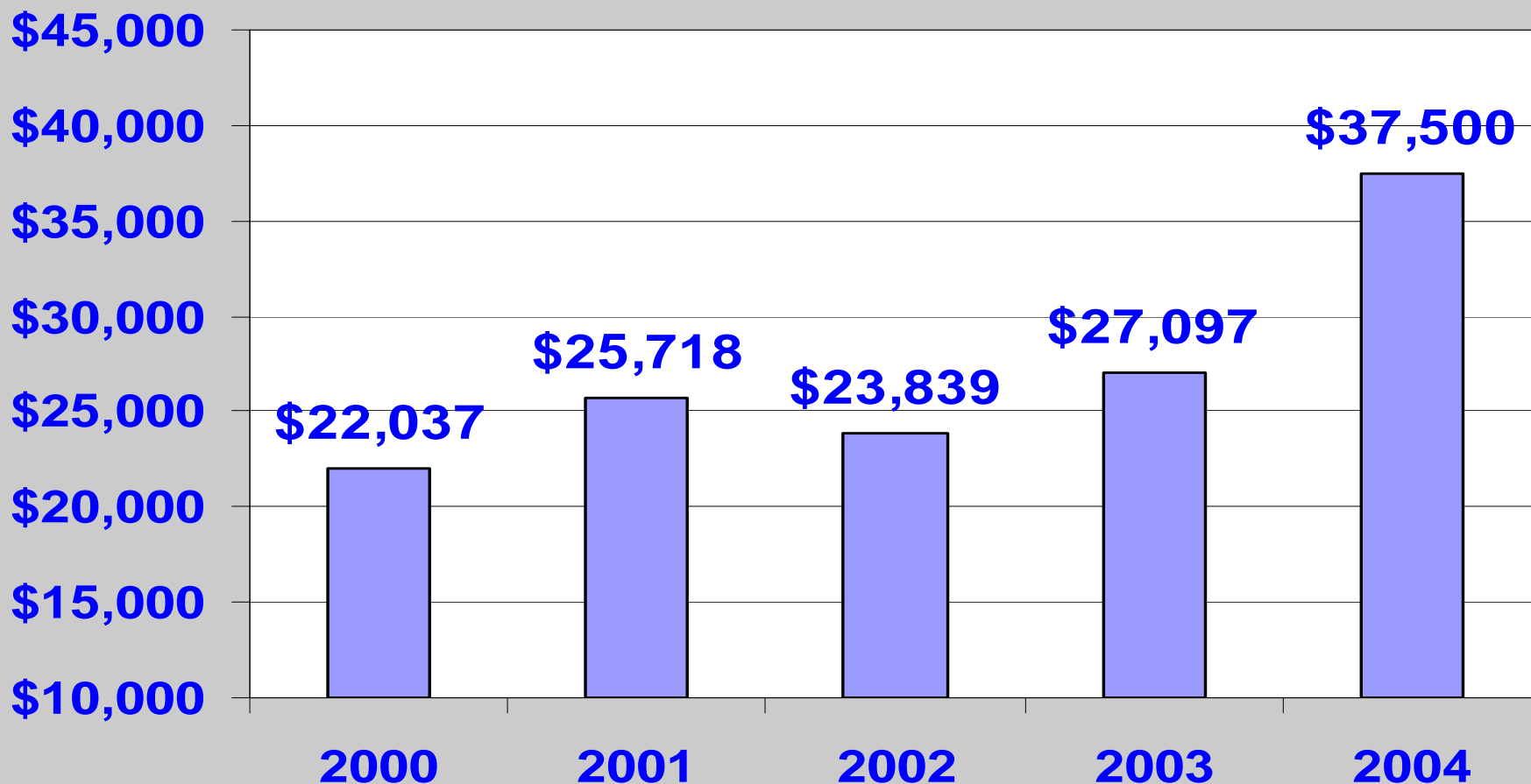
Median Reserve Acquisition Prices (\$/BOE)

(to June 30, 2004)



Summary of Recent M&A Transactions

**Median Production Acquisition Prices (\$/BOE/D)
(to June 30, 2004)**



Summary of Recent M&A Transactions

Enterprise Value of Transactions (\$/Billions)

(to June 30, 2004)



Impact of Reserve Writedowns

- **Reduced borrowing capacity**
 - Conventional lenders finance on 50%-60% of value of proved producing reserves
 - Mezzanine lenders finance on 70%-75% of value of proved producing reserves
 - 2003 reserves writedowns averaged approximately 10% on proved reserves
 - New reserves evaluated conservatively to meet the P90 level of certainty test
 - Value of proved producing reserves further reduced by abandonment costs
 - Result is a reduced base of proved producing reserves, and decreased ability to finance through debt

Impact of Reserve Writedowns

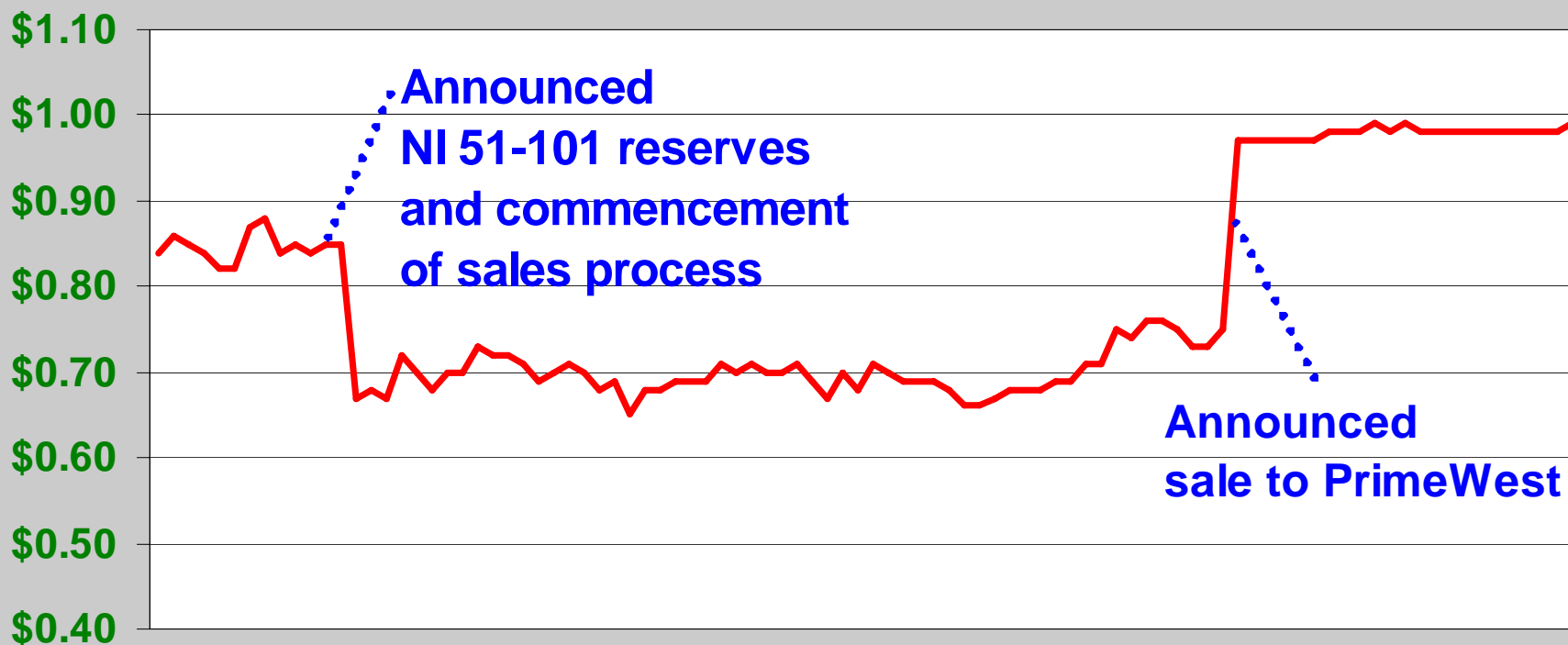
- **Loss of Market Confidence**
 - Since well publicized engineering-related train wrecks the market has been suspicious of over-stated reserves
 - These public disasters in part led to the implementation of NI 51-101
 - Some companies “got caught” and paid the price
 - Other companies got caught in the draught
 - Other companies just got caught with bad luck and bad timing

M&A Transactions Instigated by NI 51-101

- **Seventh Energy Ltd.**
 - Put up for sale following the November 2003 announcement that *“the proven gas reserve base is potentially materially lower than that attributed to the pool in our last independent reserve evaluation”*
 - Share price tumbled on announcement
 - Company ultimately sold for a 42% premium to the bottom reached following the announcement
 - Company ultimately sold for an 18% premium to the average trading price prior to the reserves announcement

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Seventh Energy Ltd.

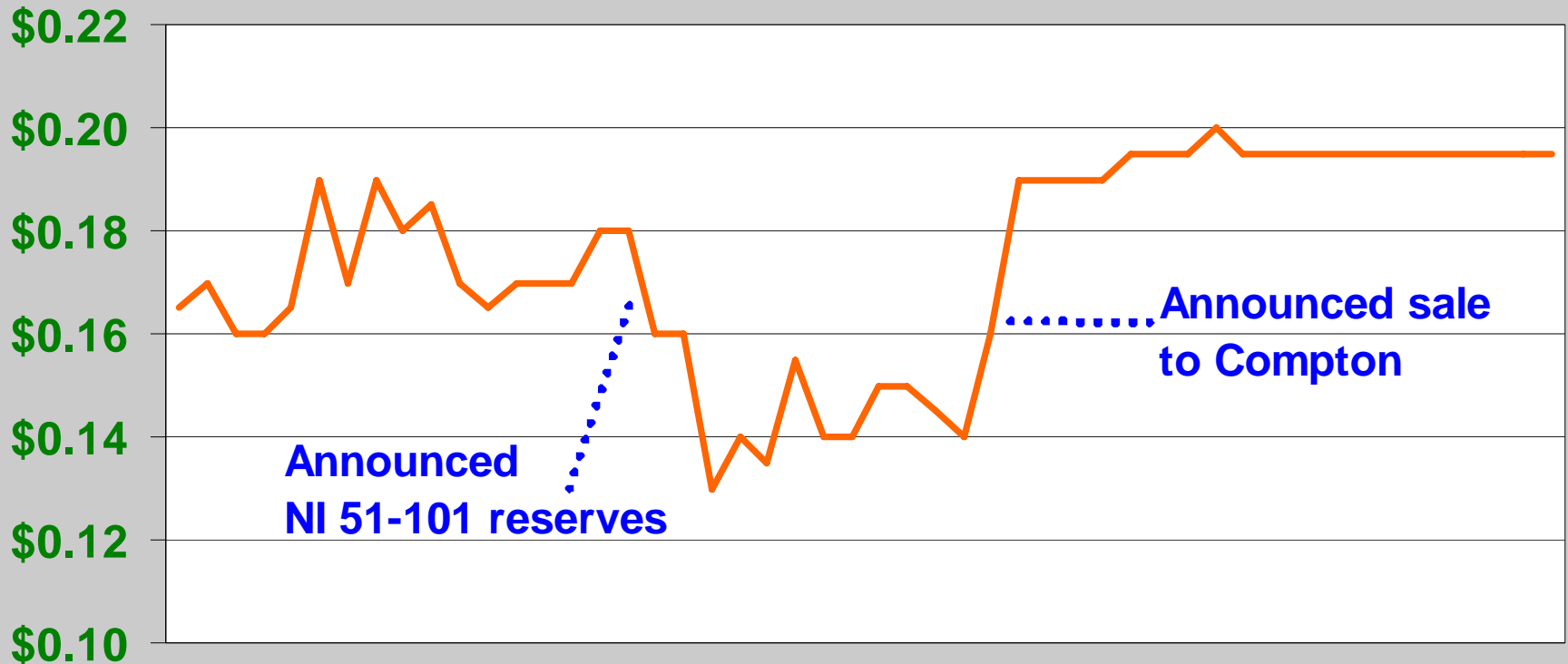


M&A Transactions Instigated by NI 51-101

- **Redwood Energy, Ltd.**
 - Announced in January 2004 that “*technical revisions are responsible for a 43% reduction in total proved plus probable reserves*”
 - Further announced that “*the reduction in reserves may affect the Company’s lending value*”
 - Company ultimately sold for a 54% premium to the bottom reached following the announcement
 - Company ultimately sold for an 18% premium to the average trading price prior to the reserves announcement

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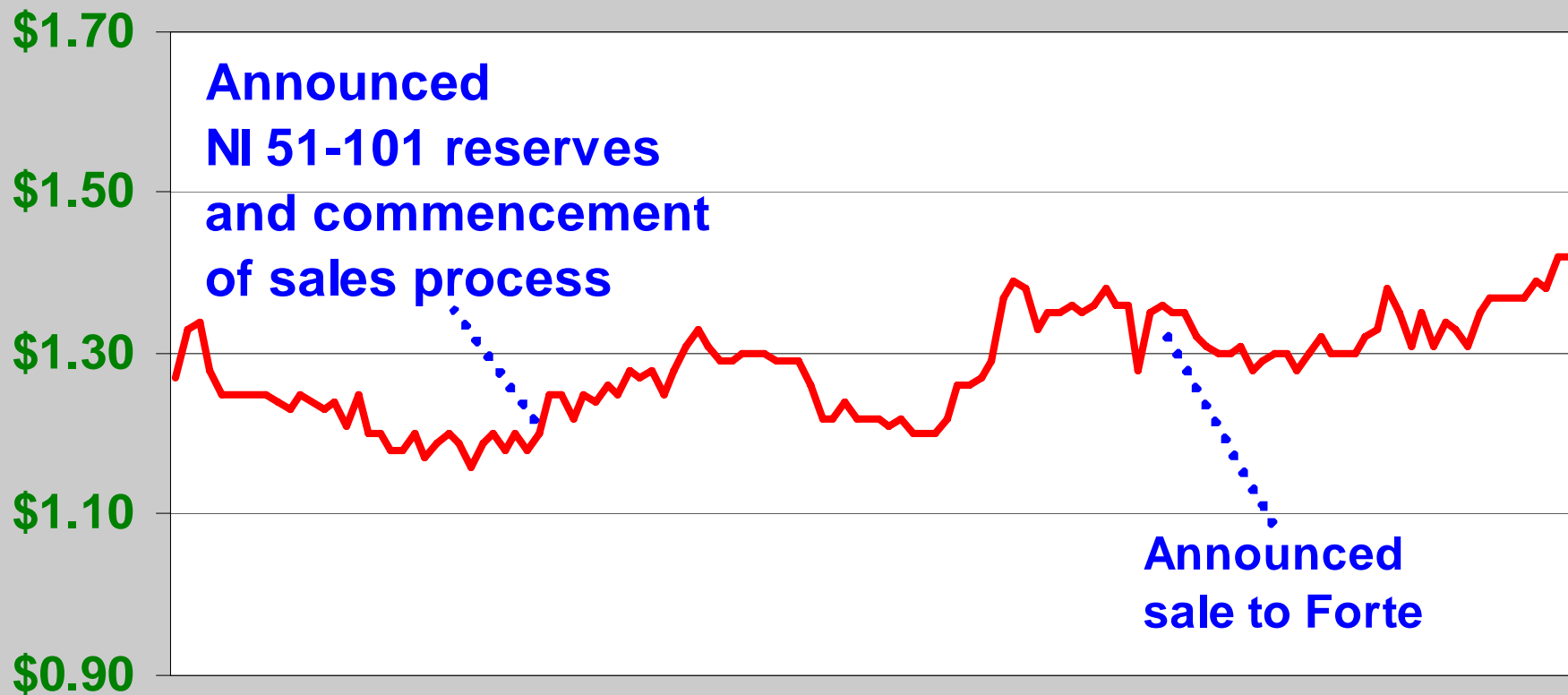
Redwood Energy, Ltd.



M&A Transactions Instigated by NI 51-101

- **Oiltec Resources Ltd.**
 - Announced a 19% reduction in previously reported reserves in February 2004
 - Further announced that it had established a special committee of management and the board of directors and that it had retained an agent to review strategic alternatives
 - Company ultimately sold for a 16% premium to the trading price following the announcement
 - Company ultimately sold for a 14% premium to the average trading price prior to the reserves announcement

Oiltec Resources Ltd.

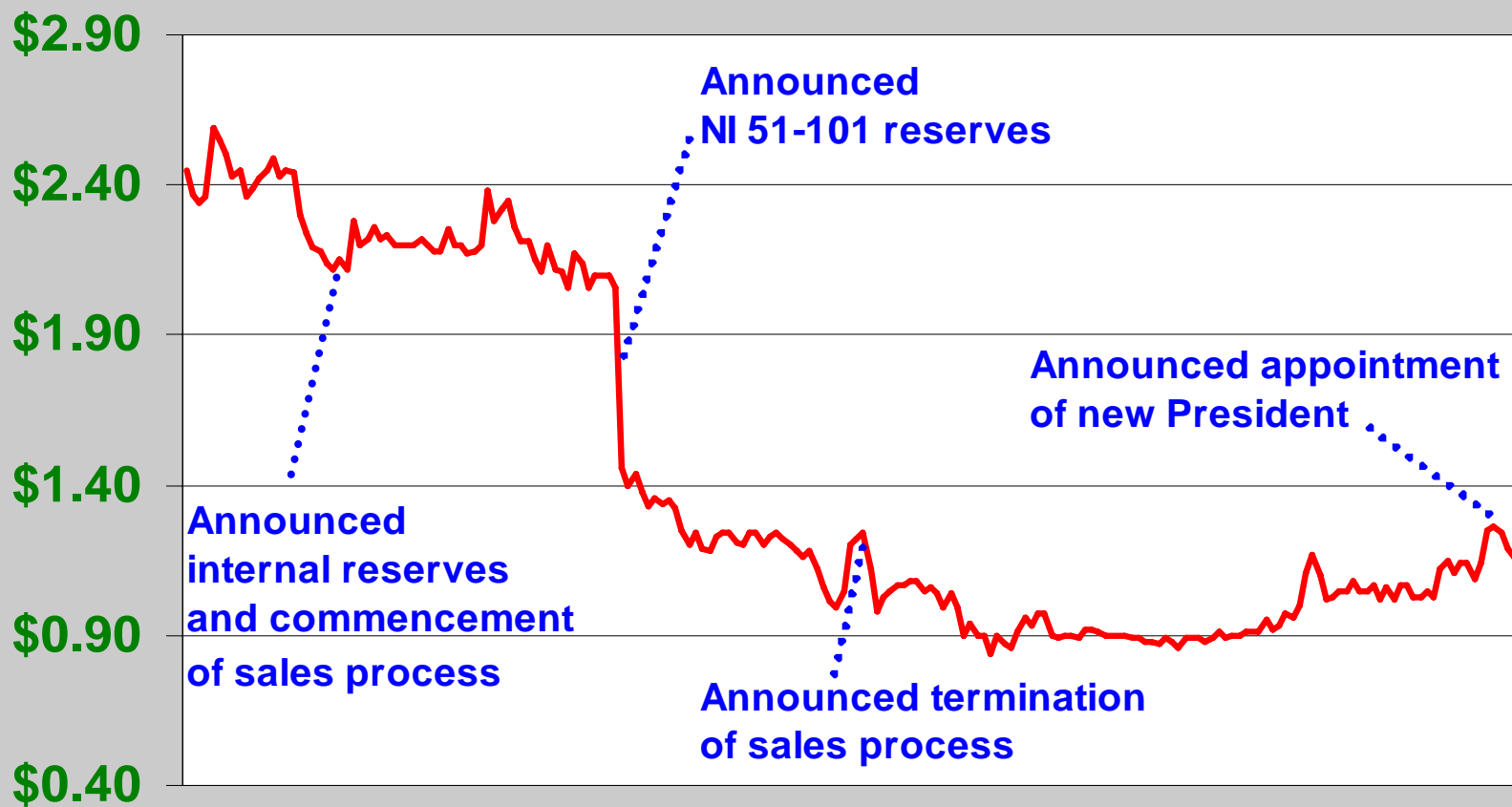


M&A Transactions Instigated by NI 51-101

- **Endev Energy Inc.**
 - In February 2004 announced an internal estimate of proven reserves and that an agent *“has been retained ... to review various strategic alternatives ...”*
 - In April 2004 announced independent reserves evaluation showing P+P reserves 25% lower than internal estimate
 - In May 2004 announced the termination of the sales process as *“the Company's economic potential ... has not been fully delineated nor acknowledged by possible buyers”*, two days later announced executive changes
 - In October 2004 announced the appointment of a new President

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Endev Energy Inc.



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Summary of M&A Transactions Instigated by NI 51-101

	SEVENTH	REDWOOD	OILTEC	2004 Median (to June 30, 2004)
Share price Pre-reserves hit	\$0.85	\$0.17	\$1.21	
Share price Post-reserves hit	\$0.70	\$0.13	\$1.23	
Ultimate Sales price	\$1.00	\$0.20	\$1.40	
Sales price \$/BOE	\$13.60	\$13.50	\$13.36	\$13.17
Sales price \$/BOEPD	\$38,147	\$33,717	\$39,091	\$37,500

*Summary of
M&A Transactions Instigated by NI 51-101*

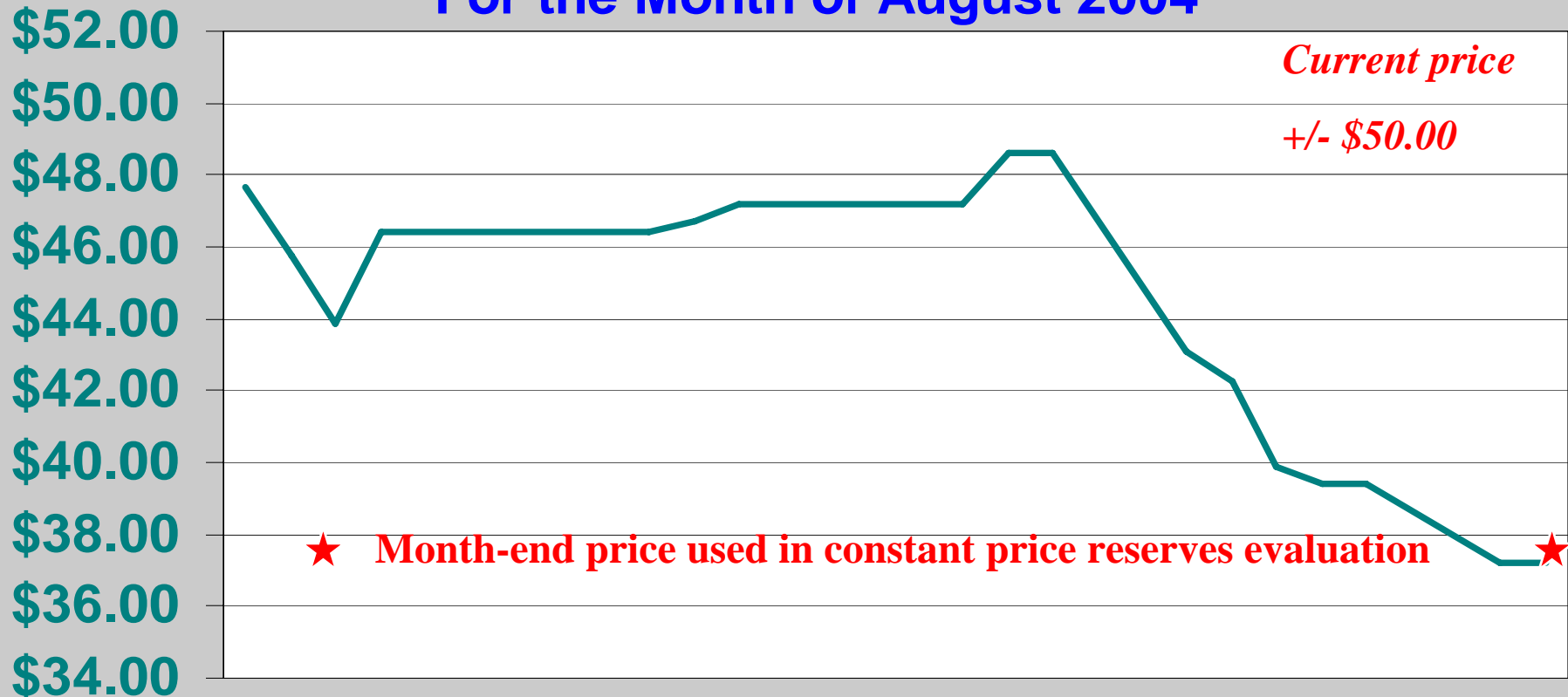
- **Market Perception of Reserve Writedowns**
 - Seventh, Redwood and Endeavour all saw share prices tumble after reserve hits announced
- **Astute Buyers Appeared Quickly**
 - PrimeWest, Compton and Forte acquired Seventh, Redwood and Oiltec for prices close to market prior to announcements, taking advantage of post-reserve writedown market crashes
- **Not all endings are happy**
 - Endeavour is still trading for approximately half of pre-announcement levels

*Problems/Limitations of NI 51-101
in M&A Transactions*

- **Understated Reserves Values**
 - Seventh and Redwood may be examples of reserves being hit too hard
 - Uplifted values expected in 2004/2005 and beyond
- **Inconsistent Reporting of Liabilities**
 - Property level vs corporate level
- **Constant pricing at date of report**
 - Price fixed on last day of month
 - Unrealistic and extremely variable in fluctuating price environment

*Problems/Limitations of NI 51-101
in M&A Transactions*

**Imperial Bow River (25 API) Oil Price
For the Month of August 2004**



***Problems/Limitations of NI 51-101
in M&A Transactions***

- **Increased cost of mergers**
 - More onerous reporting requirements
 - Private companies merging with public companies must meet standards prior to merging
- **Timing of mergers**
 - Difficult for engineering firms to open “new files” between November and May
 - Current “wait list” exceeds one month
- **“After tax” runs subject to many variables**
 - Difficult to forecast precise tax scenario
 - Ongoing drilling programs
 - “flow through” share issues

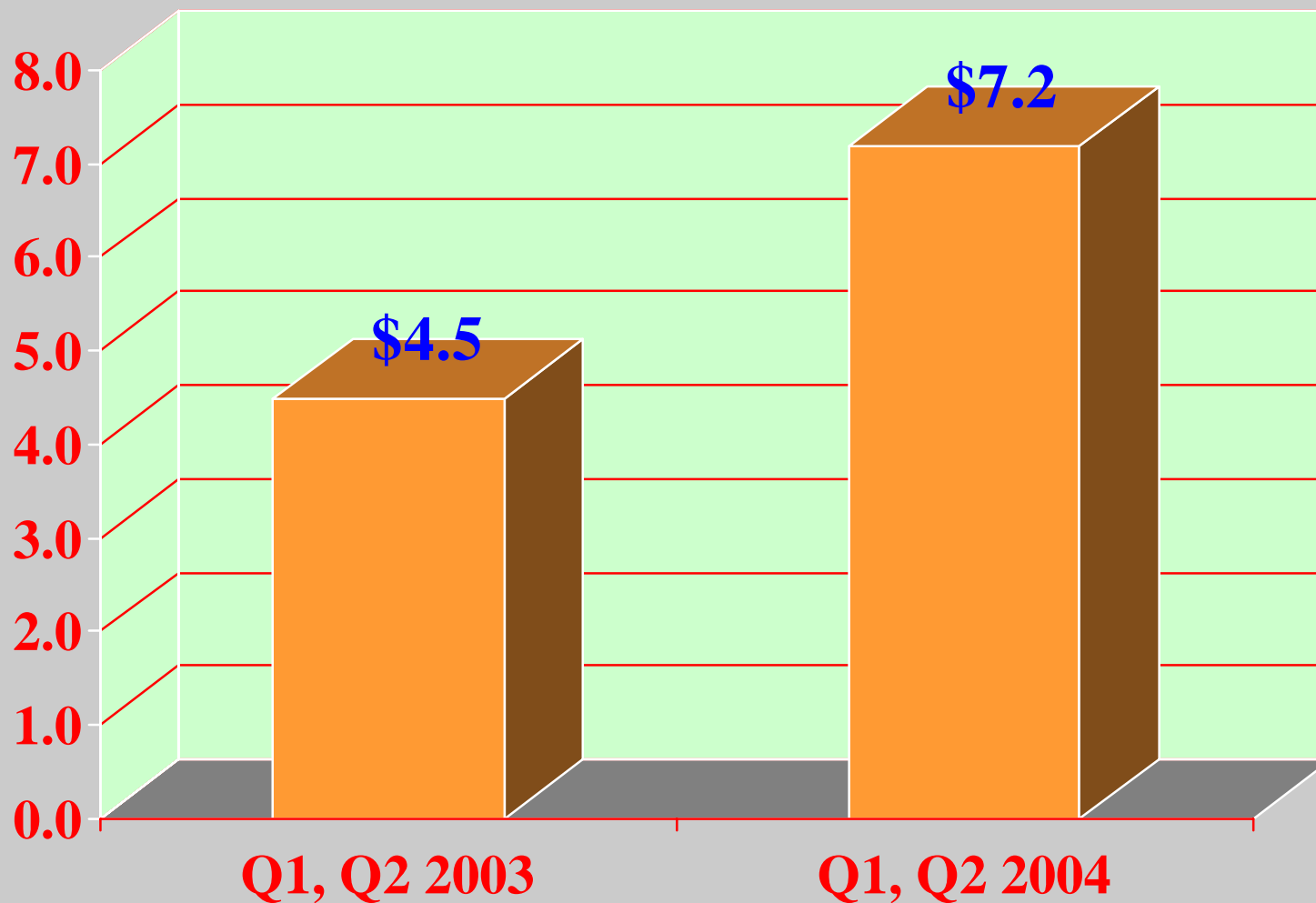
***Problems/Limitations of NI 51-101
in M&A Transactions***

- **Uneven playing field for large corporations**
 - Companies producing over 100,000 boepd do not need to report under the same criteria
- **Uneven playing field for US corporations**
 - SEC reporting requirements are currently less onerous than NI 51-101
 - US corporations could in theory pay more and get uplift while honouring SEC guidelines
- **Variations in level of acceptance of independent engineering firms**
 - Industry still has an “A” list, a “B” list and a “C” list

*Taking Advantage of NI 51-101
Disclosure Information*

- **“More and Better Disclosure” on public companies**
 - Should encourage more unsolicited offers at both the property and corporate level
 - Are “hostiles” going to return?
 - Should help astute buyers gain a competitive advantage
 - Should encourage investors to purchase shares more readily
 - More financings should occur
 - Increased inflow of capital should result in increased M&A activity

Total Value of Financings (\$ billions)
First Six Months of 2003 and 2004



***Taking Advantage of NI 51-101
Disclosure Information***

- **Reserves hit too hard in first round**
 - Opportunity to buy before uplift in subsequent evaluations
 - Compton/Redwood, PrimeWest/Seventh could be examples of this
- **Reserves on new discoveries hit hard**
 - Astute buyers will buy in areas where they know “the size of the prize”
- **Easier to effect mergers of public companies**
 - Uniform disclosure of both public companies is assured prior to entering discussions
- **US buyers with less stringent reporting could emerge as the winner in M&A deals more often**
 - SEC requirements less onerous than NI 51-101

Wrap Up

- **There will be winners and losers as a result of the implementation of NI 51-101**
- **Proactive companies will move to the winners list**
- **Reactive companies will move to the losers list**
- **More transparent disclosure will make the identification of the winners and losers easier**
- **Segregation of winners and losers will result in a robust M&A marketplace**
- **Questions? Answers?**

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