



# CANADIAN ENERGY UPDATE

## “Generally Sunny, with Cloudy Periods”

### Notes for Remarks

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For:  
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Calgary, Alberta  
October 18, 2012





## Lots of Variables at Play

- Uncertain “Big Picture” economy and market
- Somewhat subdued energy capital markets
- Buoyant merger and acquisition environment
- Extremely strong investment interest from abroad
- Quite positive overall environment for oil projects
- Huge continuing investments in the oil sands
- The beginning of better days for natural gas
- Lots of action in much-needed transportation
- Very positive future for oilfield services



# Market & Economic Overview



## Market & Economic Overview

- Canadian oil and natural gas producer public equities are up decently from their lows in Q1 2009 due to increased oil prices, a cautiously optimistic view of the global economy and continued increasing interest from international investors.
- However, the market for energy equities currently feels fairly subdued relative to historical trends, due to continued weak natural gas prices, volatile oil prices, higher-than-historical capital costs and global economic worries.
- Tensions in Iran continue to be high and it appears that economic sanctions are working better now may not be enough to delay Iran's nuclear development program.



## Market & Economic Overview (Cont'd)

- The US economy continues to grow at a modest rate (Q2 GDP growth of 1.7% annualized), however, there are significant concerns about the sustainability of this growth:
  - the US unemployment rate continues to be high at 7.8%; ~26 million Americans remain either unemployed or underemployed, 47 million Americans receive food stamps; and
  - the US national debt now stands at over \$16 trillion with total debt to GDP of 102%; total debt is projected to hit \$20 trillion in late 2015 at the current rate of growth.
- The US elections in November are also causing additional uncertainty in the market.



## Market & Economic Overview (Cont'd)

- The Euro-zone economy is now contracting with Q2 GDP down 0.2% compared to Q1 and many believe that the region is headed for recession:
  - total Euro-zone unemployment is at a new high of 11.4% while youth unemployment is at a Euro-era record high of 22.7% with Spain and Greece both over ~52%; and
  - sovereign debt levels in the region are also very high with 2011 total debt to GDP of 83%; the PIIGS countries all have debt to GDP ratios of over 100% with Greece being the highest at 165% followed by Italy at 120%.
- Recently, global equity markets have been somewhat comforted by announcements from the European Central Bank (the “ECB”) and the US Federal Reserve (the “Federal Reserve”) which are signaling continued monetary easing with the potential for outright monetization of debt.

The slide features a dark, textured background with a collage of images. On the left, a vertical strip shows an oil rig. The main area contains a hand holding a pen over a map, a compass, and a 100 Euro banknote. The text 'Energy Market Overview' is centered in a yellow font.

# Energy Market Overview

# Commodity Price and Peters & Co. Index Performance



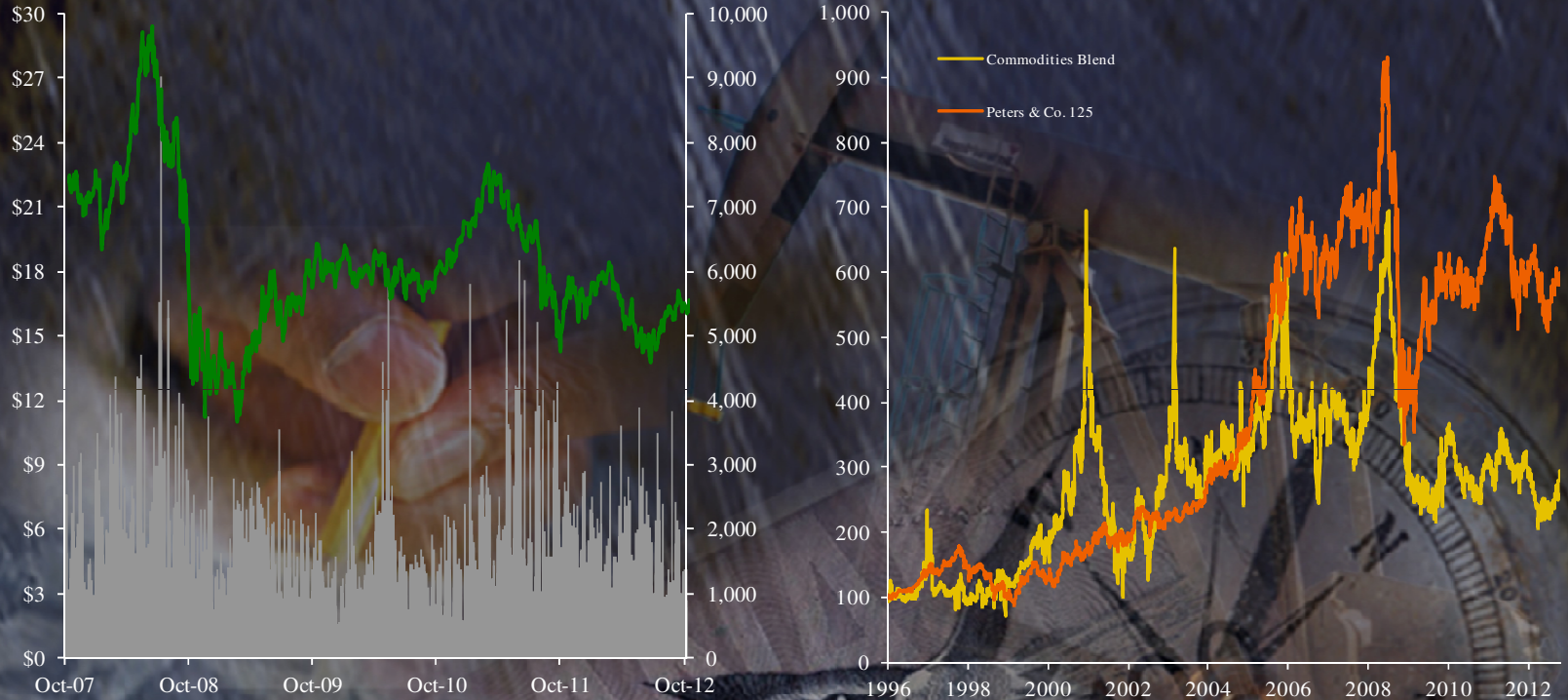
Commodity / Index	Return Since Jan 4, 2010	Return Since Jan 2, 2011	Current Level vs. 2012 High
WTI - Oil	13%	1%	-16%
Peters & Co. 125	-4%	-10%	-7%
Henry Hub - Natural Gas	-41%	-21%	-4%
AECO Natural Gas	-49%	-23%	-2%



# Energy Market Performance

## S&P/TSX Capped Energy Index Fund (XEG-T)

## Commodity vs. Equity Relative Performance



*Note: Commodities are blended 25% light oil, 25% heavy oil and 50% natural gas.*

**Canadian E&P equities trading prices have been narrowly range-bound for over three years.**

**E&P equities and commodity prices are diverging again...E&P share prices, over time, tend to reflect the underlying commodity prices.**



## Energy Market Overview

- Equity markets in Canada have been only selectively open for certain larger and a few smaller capitalization producers:
  - emphasis and investor interest is clearly on “resource plays”, oil projects and marquee management teams.
- This is a great environment for private equity, due to currently reduced competition with public markets and much higher initial capital requirements for E&P companies.
- There has been, and continues to be, a significant number of M&A transactions targeting companies with a “resource play” focus and half a dozen substantial joint venture deals:
  - to date in 2012, there have been 72 corporate and asset transactions with an aggregate value of ~\$33 billion compared to 110 transactions with an aggregate value of ~\$9 billion in 2011; and
  - in comparison, 2009 had the largest aggregate transaction value in the past five years with 99 transactions for an aggregate value of \$37.7 billion (the Suncor/Petro-Canada deal was ~\$22.5 billion).

**Capital market conditions appear to be improving, M&A activity is quite strong.**



## Energy Market Overview (Cont'd)

- The equity flowing into the sector is at multi-year lows and debt for most companies is at higher than average leverage levels:
  - this has made transactions, especially share deals, more difficult to complete (the continuing entities require cash); and
  - access to capital is critical to those who will ‘survive’ and dictate the ability to consummate transactions.
- The “log jam” of transactions has been quietly un-locking, on a selective basis:
  - sellers’ expectations converged with buyers’ ability to pay;
  - investor fatigue has set in for a number of junior and intermediate E&P companies;
  - transaction metrics are at a level where an acquiror is willing and able to finance / issue paper and transactions can be well received in the market; and
  - many transactions are motivated by the balance sheet; examples include: Fairborne, NuVista and we expect others.



## Energy Market Overview (Cont'd)

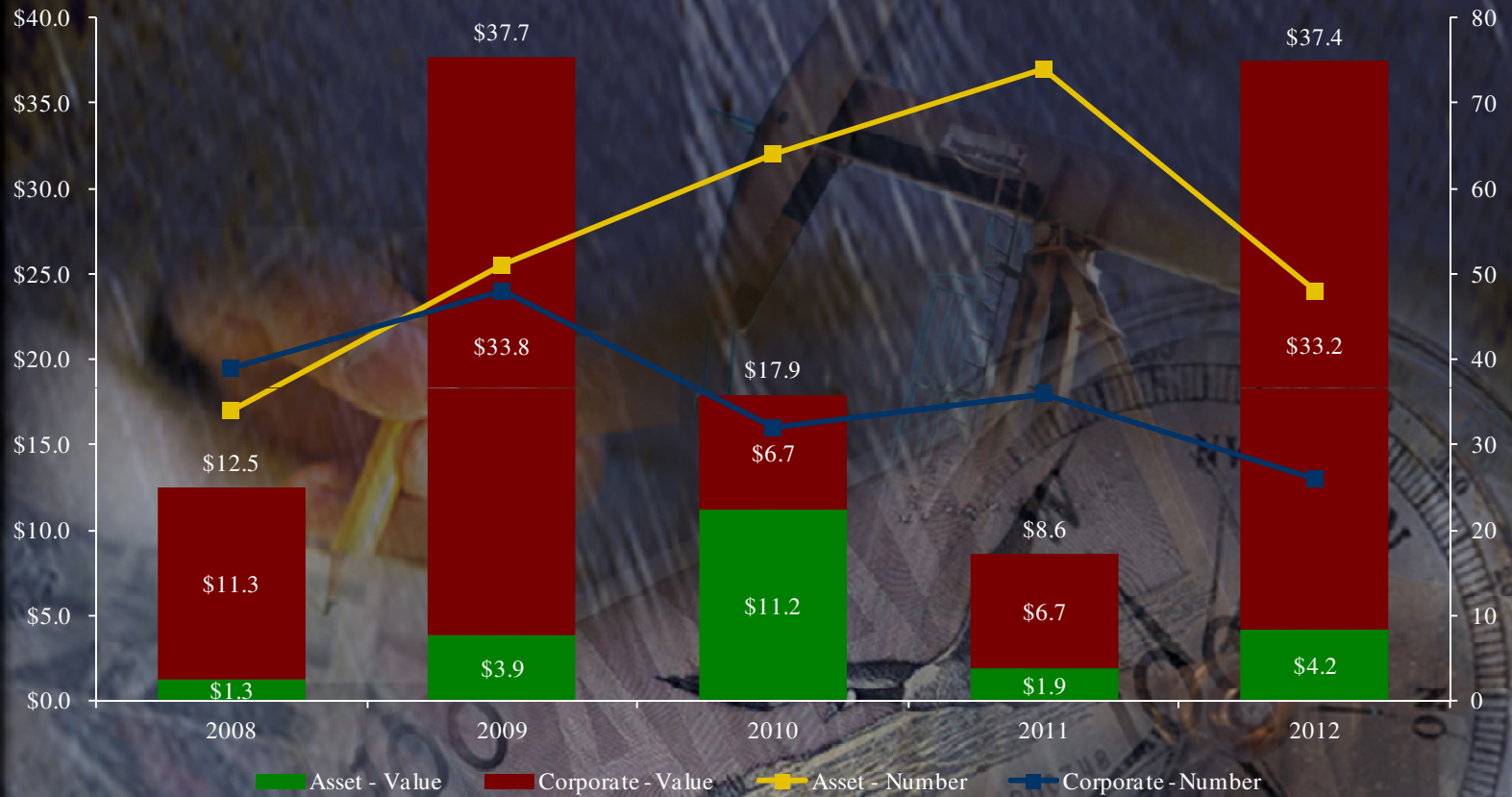
- The yield players are still being valued at a premium in the market and typically have reasonable access to capital (i.e. Bonavista, Crescent Point, ARC).
- Oil-weighted assets with running room still typically command the highest premiums (except for LNG related transactions); the long term view on natural gas prices is still generally bearish.

**Significant global risks remain, but we are cautiously optimistic for the energy sector.**

# Canadian E&P M&A Transactions

Total Value  
(billions)

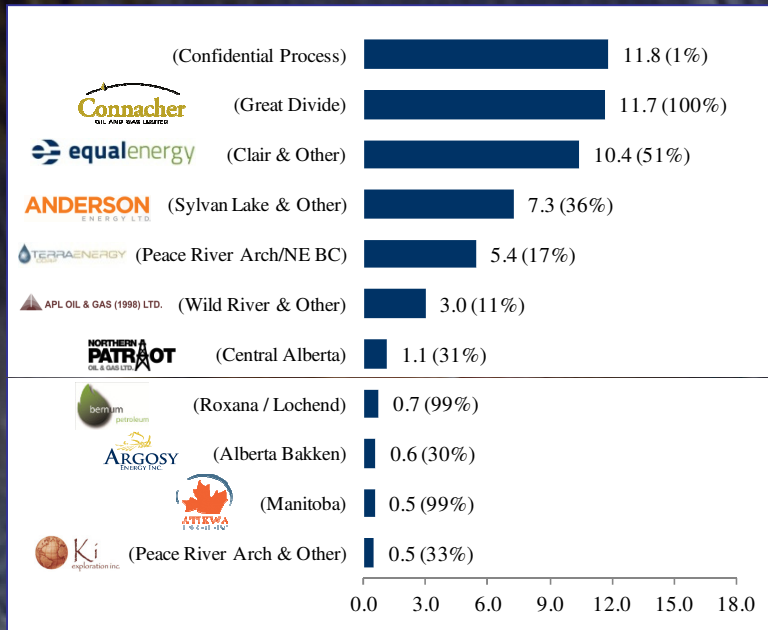
Number of  
Transactions



The total value of 2012 transactions is up significantly year over year due to the NAL, Progress, and Nexen transactions; however, the overall number of transactions is down materially.

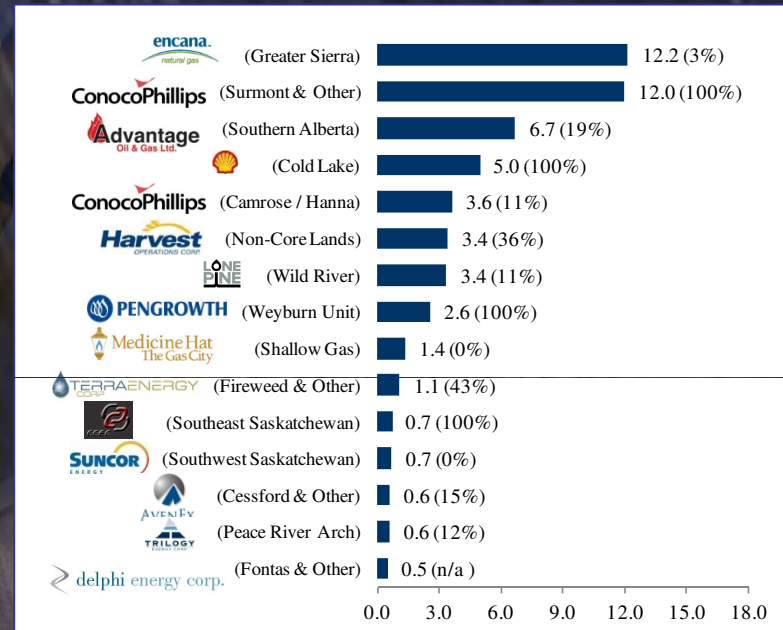
# Corporate & Asset Divestitures Available in the Market

## Corporate Divestitures



Total Corporate Production of 55,217 BOE/d <sup>(1)</sup>.

## Asset Divestitures













Total Asset Production of 57,249 BOE/d <sup>(1)</sup>.

Note: Processes as at September 26, 2012.

1) Includes divestitures less than 500 BOE/d.

# Recent M&A Activity

	<b>October 17</b>	Penn West Petroleum Ltd. announced the strategic disposition of certain non-core assets for ~\$1.3 B.
	<b>October 17</b>	Celtic Exploration Ltd. announced the sale to Exxon Mobil Corporation for ~\$3.1 B.
	<b>September 10</b>	NuVista Energy Ltd. announced the strategic disposition of three asset packages for \$236 MM.
	<b>August 28</b>	Fairborne Energy Ltd. announced the strategic disposition of two property packages for \$189 MM.
	<b>August 8</b>	West Fire Energy Ltd. announced the sale to Guide Exploration Ltd. for \$600 MM.
	<b>July 23</b>	Nexen Inc. announced the sale to CNOOC Limited for ~\$20 B.
	<b>July 3</b>	Peyto Exploration & Development Corp. announced the acquisition of Open Range Energy Corp. for \$180 MM.
	<b>June 28</b>	Progress Energy Resources Corp. announced the sale to PETRONAS for ~\$5.5 B.
	<b>May 3</b>	Crescent Point Energy Corp. announced the acquisition of Cutpick Energy Inc. for \$425 MM.



# Financing in the Canadian Energy Sector





# Financing in the Canadian Energy Sector

- The “equity window” has periodically opened and shut through late 2011 and 2012 year to date, and the Canadian equity markets have been quite volatile:
  - energy stocks have been in a reasonably tight trading range for at least three years and the returns from E&P companies have been muted, on average in that period (there are several material exceptions).
- A number of the most promising entities are staying private through the initial stages of growth presenting a strong opportunity for private equity funds:
  - many private equity and pension players are investing in Canada - there is an estimated \$10+ billion of private equity money seeking to back management teams and finance M&A transactions in the Canadian E&P sector.

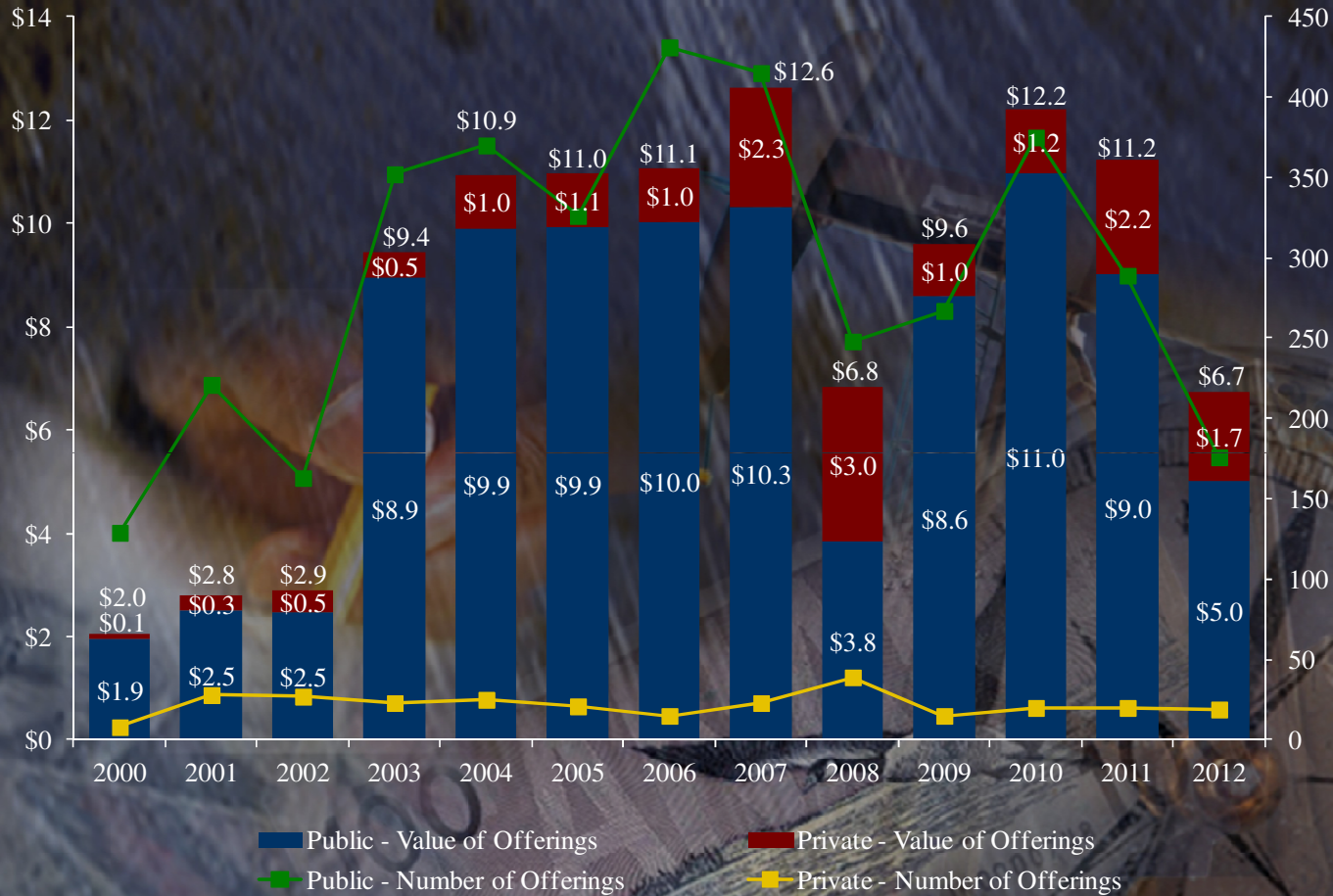
## Financing in the Canadian Energy Sector (Cont'd)

- Emphasis is on oil and liquids-rich natural gas, as the economics would suggest; acquirors with a long-term view have acquired natural gas assets at premium valuations (many to secure LNG supply).
- To date in 2012, the total dollar amount raised via Canadian energy equity financings is only ~50% of the total amount raised in 2011:
  - if this trend continues, we are on track for the lowest dollar value of equity financing in nine years; and
  - most equity financings that were completed in 2011 and year to date in 2012 have significantly underperformed on a return basis.

# Canadian E&P Equity Offerings

Total Value (billions)

Number of Issues



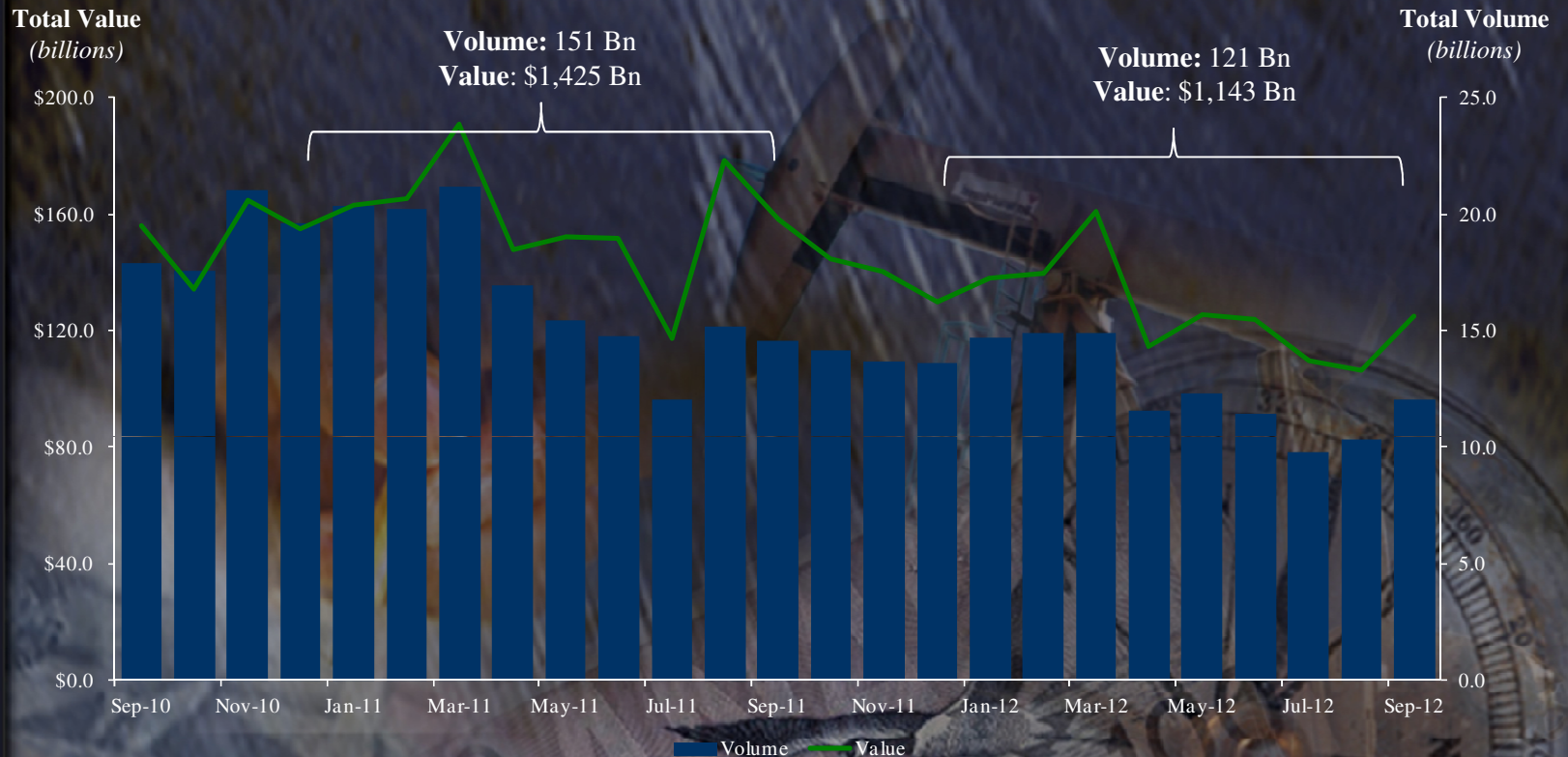
**2012 equity offerings are currently down ~50% compared to 2011 in both total dollar amount and number of issues.**

# Recent Equity Financings

	<b>October 10</b>	\$36.9 million bought deal offering of flow-through common shares at \$36.90 per share.
	<b>September 14</b>	\$90 million private placement offering at \$3.25 per share consisting of \$58 million non-brokered and \$32 million brokered components.
	<b>September 13</b>	\$100.0 million private placement of subscription receipts and flow-through subscription receipts at \$2.60 and \$3.10 per share, respectively.
	<b>September 10</b>	\$70.0 million bought deal offering of flow-through common shares at \$28.15 and \$31.00 per share.
	<b>September 10</b>	\$80.7 million bought deal offering of common shares at \$1.45 per share.
	<b>August 28</b>	\$345.3 million bought deal offering of common shares at \$16.50 per share.
	<b>August 13</b>	\$43.5 million private placement of common shares at \$11.00 per share.
	<b>August 9</b>	\$632.8 million bought deal offering of common shares at \$41.00 per share.
	<b>August 8</b>	\$134.5 million bought deal offering of common shares at \$29.00 per share.
	<b>August 1</b>	\$345.0 million bought deal offering of common shares at \$23.65 per share.
	<b>July 17</b>	\$50.0 million bought deal offering of preferred units at \$25.00 per share.
	<b>June 20</b>	\$36.1 million bought deal offering of common shares at \$1.20 per share and flow-through common shares at \$1.45 and \$1.32 per share.

# Canadian Market Trading

Total Trading Value and Volume (Sept. 2010 – Sept. 2012) <sup>(1)</sup>



**Total Canadian market trading value and volumes are down ~20% and ~26% year to date, respectively.**

<sup>1)</sup> Includes TSX, TSX Venture, Chi-X and Pure Exchanges



# International Interest in Canadian Energy



## Non-Canadian Corporate Acquirors & JV Partners

- Companies originating in many countries are represented in the Canadian energy sector. They are many and diverse---the United States, China, the United Kingdom, France, Italy, Norway, the Netherlands, Abu Dhabi, Malaysia, Thailand, Korea, India, Spain and on and on.

# Non-Canadian Corporate Acquirors & JV Partners



Notwithstanding whatever happens in the economy and the financial markets, the fact remains that much of global hydrocarbon production comes from politically risky areas, which is a driver towards Canada as a part of a global “portfolio” for international companies and for investors.



# Non-Canadian Corporate Acquirors & JV Partners

...Have many reasons to be interested in Canadian deals.

➤ Resources are generally more costly relative to some other jurisdictions.

## Advantages

➤ Attractiveness of Economic Terms (Size of Government “Takes”)

➤ Rule of Law / Enforceability of Contracts

➤ English Language

➤ Quality of Resource Information

➤ Transparency

➤ Proximity to U.S. Markets

➤ Safety & Security

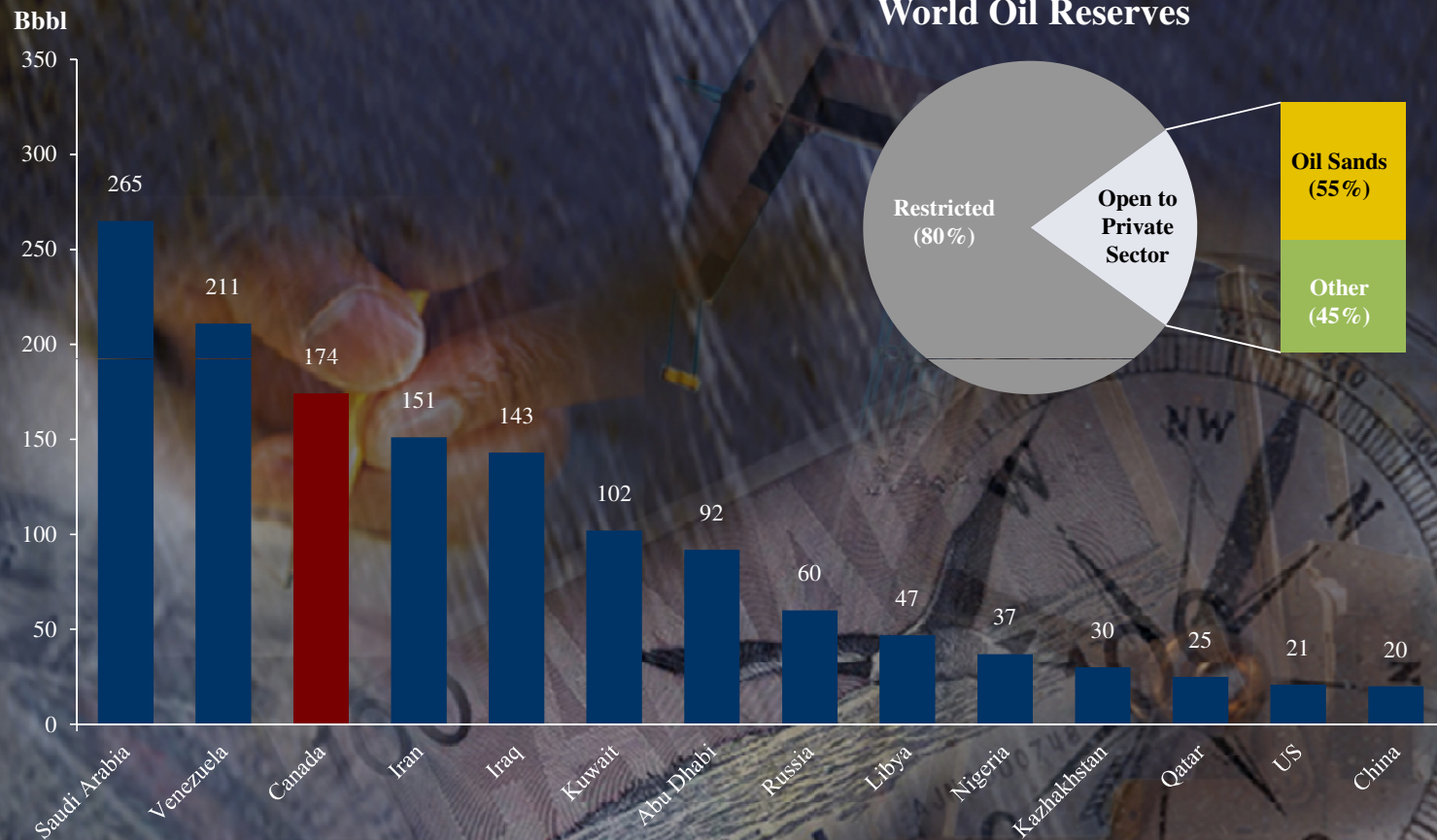
➤ Quality of Regulation

➤ Permissibility of Foreign Investment ( with *de facto* limits)

➤ Availability of Infrastructure



# Global Crude Oil Reserves by Country



Source: Oil & Gas Journal Dec. 2011 / CAPP (2012)

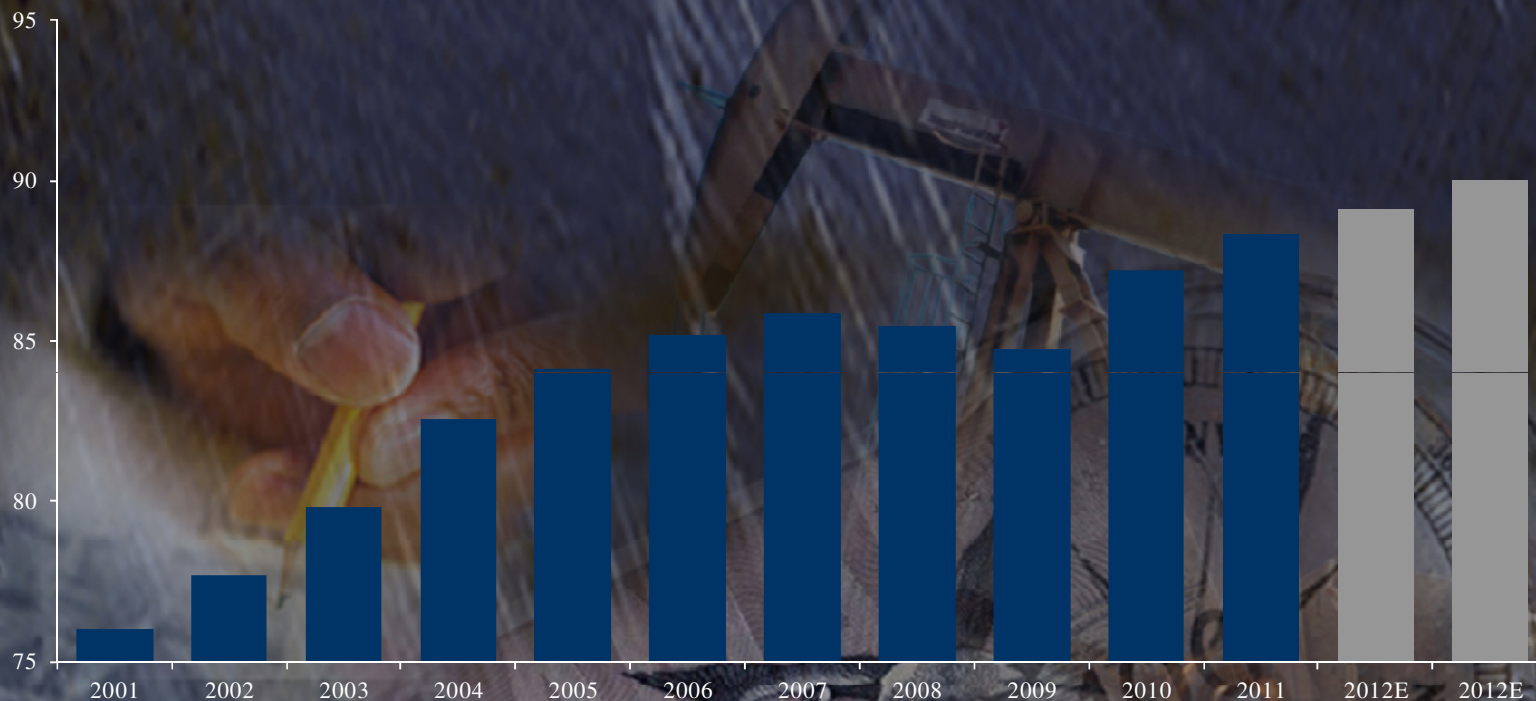


# Crude Oil

# Crude Oil

## Global Crude Oil Demand

MMbbl/d



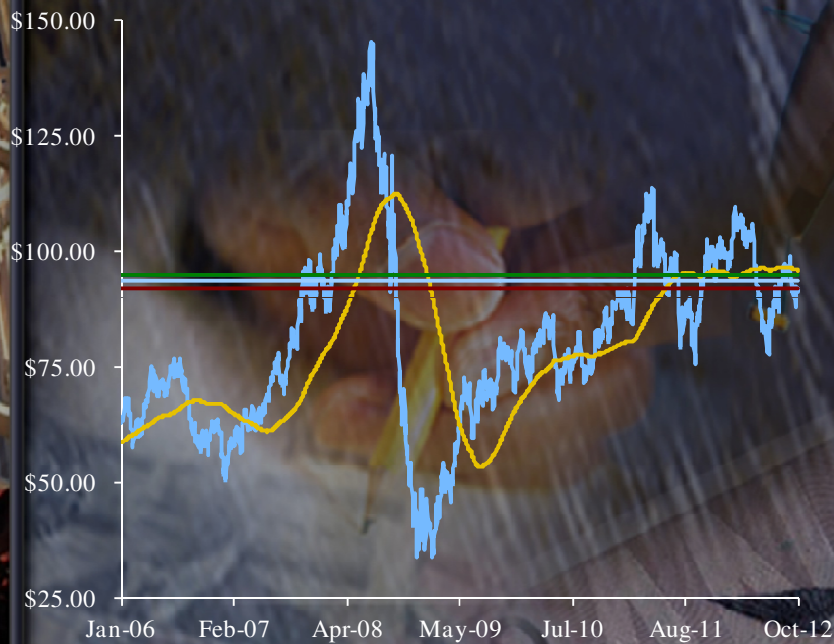
**In the absence of deep recession (also not a certainty), global oil demand keeps rising and perhaps five million barrels per day of additional capacity are needed each year just to stand still.**

Source: Energy Information Administration.

# Crude Oil

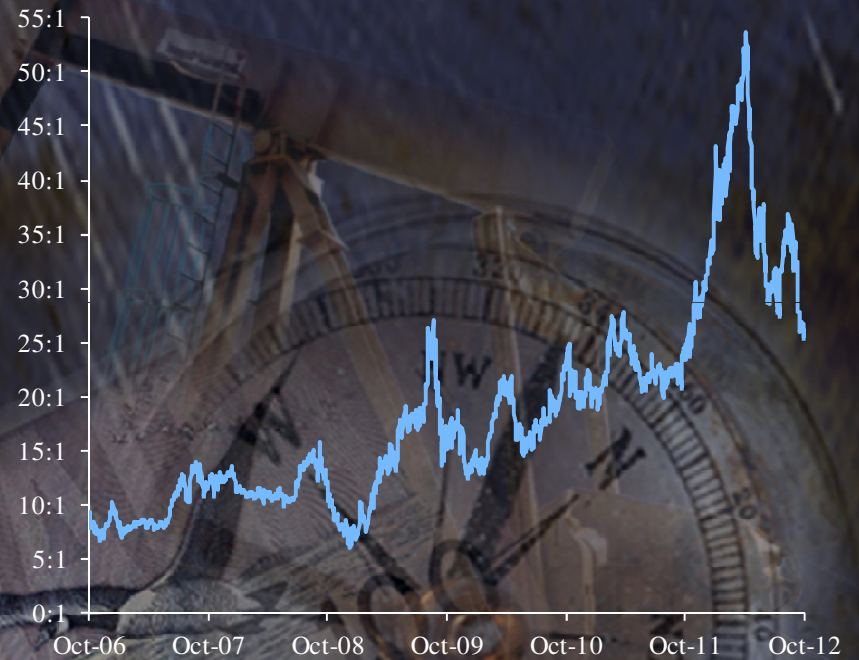
## Crude Oil Price History and Forecast

WTI Crude Oil Commodity Price History  
(2004 – 2012 YTD)



— WTI Crude Oil Pricing  
— WTI 200-Day Moving Average  
— 2012 Peters & Co. Forecast

WTI to Henry Hub Natural Gas Price History  
(2004 – 2012 YTD)



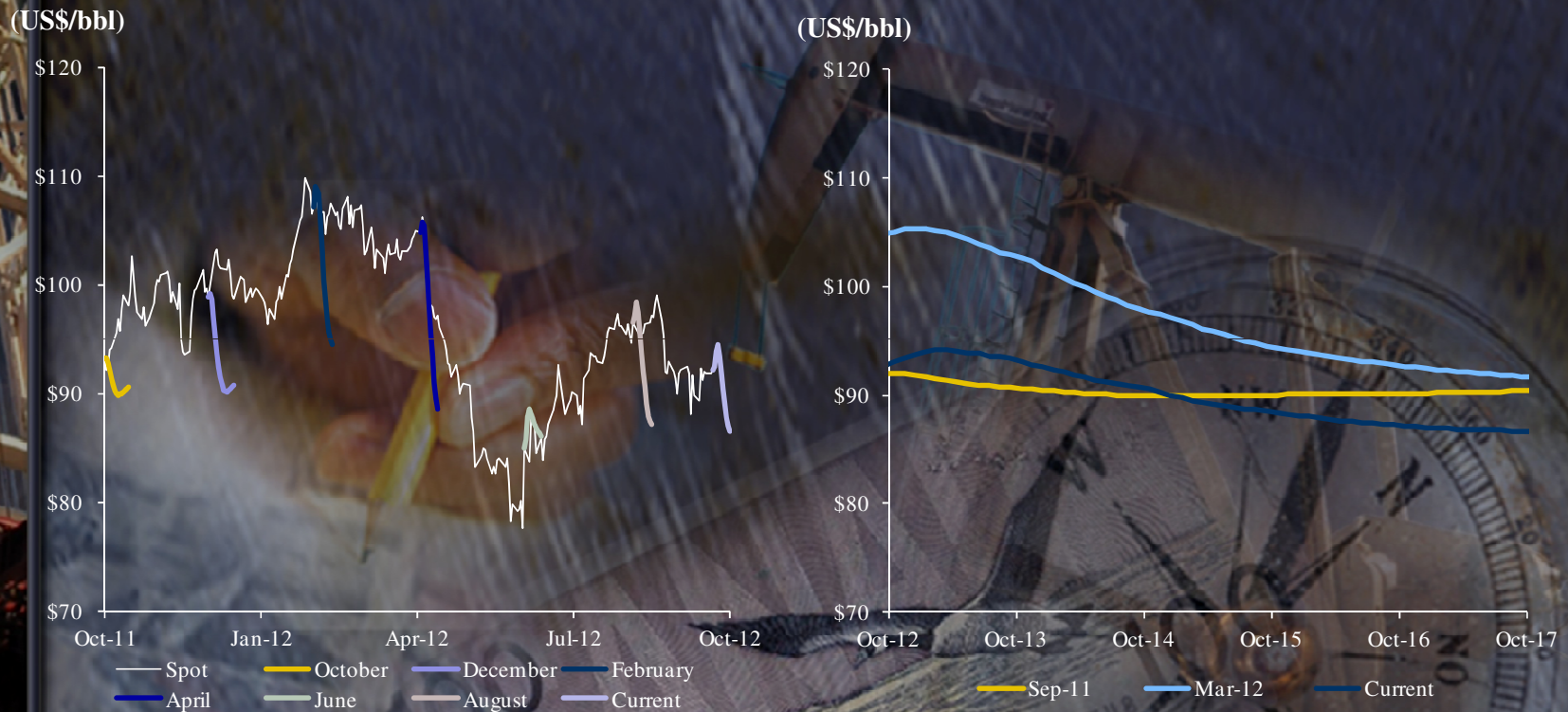
— WTI to Henry Hub Ratio

# Crude Oil

## Crude Oil Forward Curves – October 31, 2011 to Current<sup>(1)</sup>

WTI - Spot With 5-year Forward Curve

WTI - 5-year Forward Curve

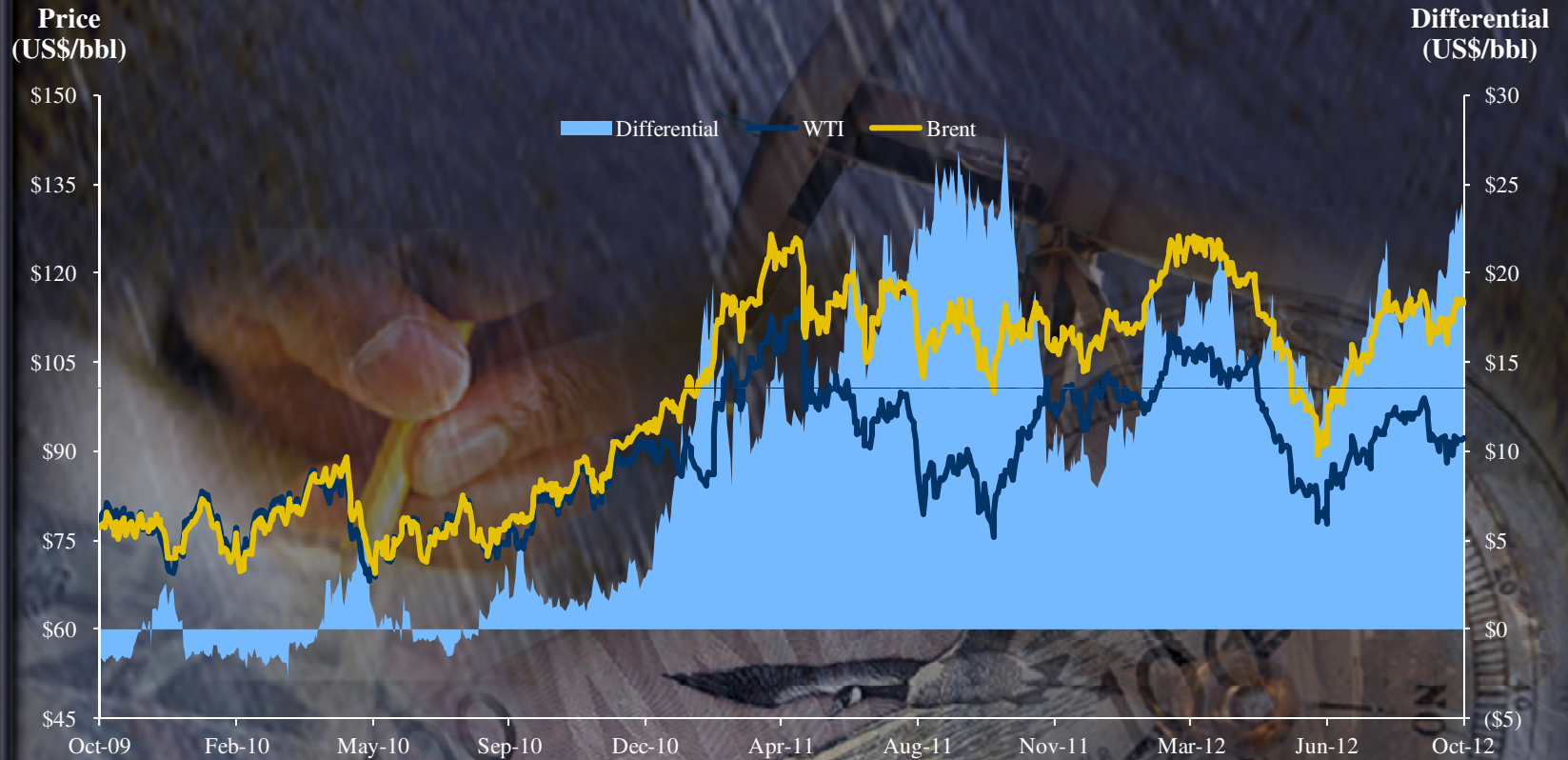


**The forward curve signals WTI US\$85 - \$90 per bbl longer-term.**

1) Forward as of the end of each month.

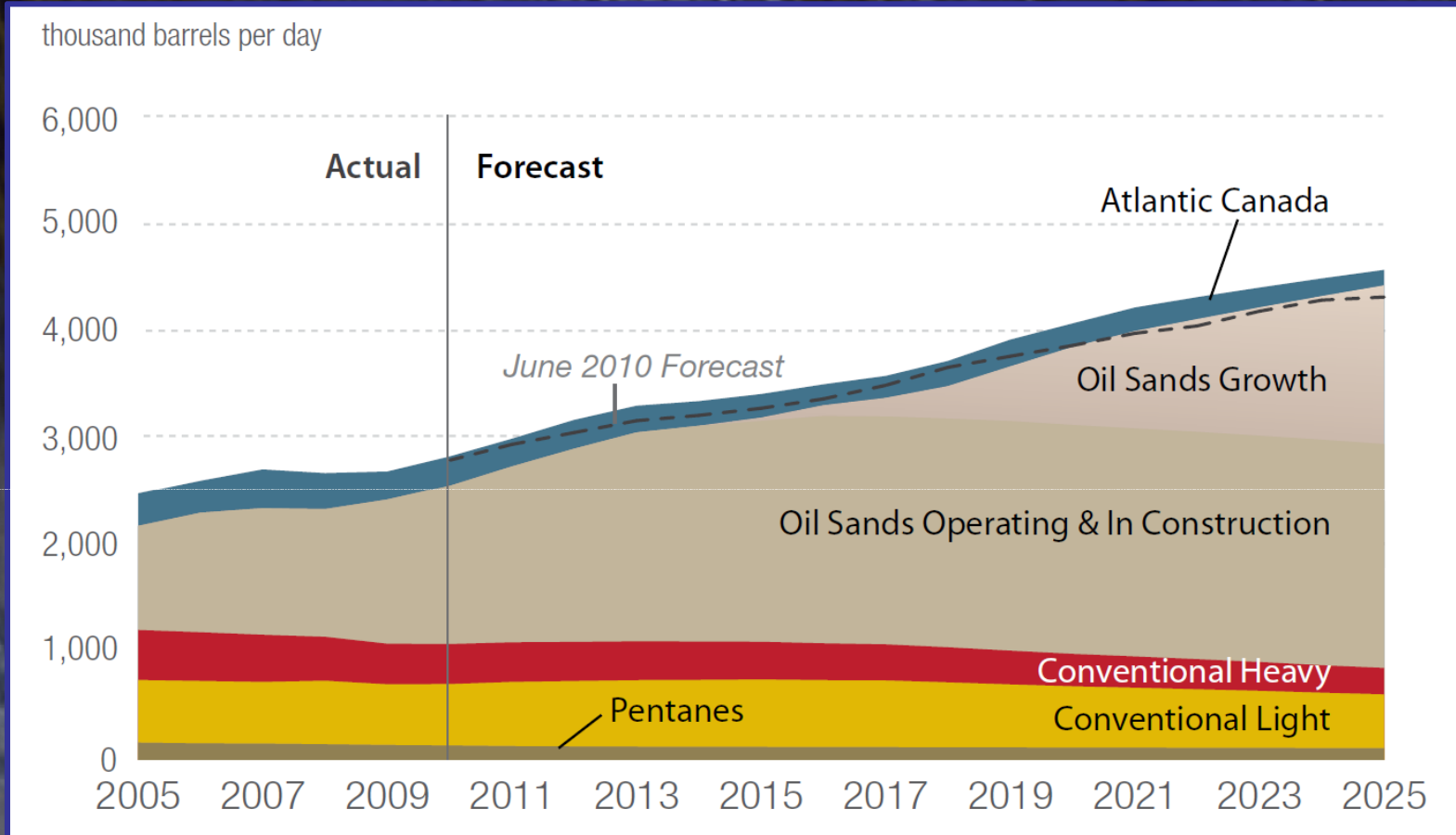
# Crude Oil

## WTI vs. Brent Differential



**The near-term outlook for WTI crude oil differentials to Brent remains unfavorable.**

# Canadian Oil Sands & Conventional Production



Source: CAPP.

**Canadian crude oil production is forecast to be approximately 3.2 MMbbl/day in 2012; oil sands production is forecast to be approximately half the total amount at 1.6 MMbbl/d.**





## Global Oil Supply

- Long-run, we still feel:
  - Global supply of oil is very difficult to add to; declines of existing global production will be hard to replace
  - Global demand for oil should continue to grow in line with economic growth by region (especially: Asia, Middle East)
  - The Chinese companies and the global super-majors see the future oil supply issue more clearly than we do...which is reflected in their collective interest in Canadian projects and companies
  - The major risk to oil and gas prices: U.S. or global recession or further economic / financial system turbulence